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Abstract

The role of Islamic finance in tackling financial exclusion in the UK

As the fundamental principles of Islamic finance are socio-economic justice and benevolence (Al-Adle Wal-ihsan), some commentators have raised serious questions about the social benefits that Islamic banks have brought to those on low incomes. This research involves an empirical study looking at the financial exclusion of less affluent UK Muslims before and since Shari'a compliant finance was introduced. The impact of the introduction of Islamic banking in enhancing the financial inclusion level of low income Muslims is assessed.

The main findings of the research are that the majority of UK Muslims are financially excluded due to the absence of banking products that would meet their needs and would also comply with Shari'a. The research also found that although UK Muslims have a preference for Shari'a compliant finance, the Shari'a compliant financial products currently on offer did not significantly enhance their financial inclusiveness. According to the research findings, the main reasons for the low take-up of the existing Shari'a compliant financial products relate to the strong skepticism about the authenticity of such products. Similarly, affordability, acceptability and accessibility of these products remained a real cause for concern for most of the less affluent UK Muslims.

The research concluded that the providers of Shari'a compliant finance need to redesign their current provision to make it more relevant to the financial services needs of the less affluent UK Muslim communities. The research further suggested that Islamic micro-financing schemes should be set up by mainstream financial institutions to cater for the financial services needs of the less affluent UK Muslims. Strong coordination between governmental institutions tackling financial exclusion, providers of Shari'a compliant financial products and local community developmental organizations was also recommended.

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DECLARATION

I hereby declare that no portion of the work that appears in this study has been used in support of an application for another degree or qualification of this or any other University or institution of learning.

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List of Abbreviations

Abbreviation

FSA	Financial Services Authority
NVB	Nederlandse Vereniging van Banken
ROSCA's	Rotating Saving and Credit Associations
IMF	International Monetary Fund
ICAR	Information Centre about Asylum and Refugees
CRSIS	The Centre for Research into Socially Inclusive Services
PBUH	Peace be upon him
OIC	Organization of The Islamic Conference
IRTI	Islamic Research and Training Institute
IIBU	Islamic Investment Banking Unit
UBK	United Bank of Kuwait
HM	Her Majesty
DWP	Department for Work and Pensions
LSC	Legal Services Commission
OFT	Office of fair Trading
BERR	Department for Business, Enterprise and Regulatory Reform
DIUS	Department for Innovation, Universities and Skills
MoJ	Ministry of Justice

FIT	Financial Inclusion Task Force
PATs	Policy Action Teams
NFPOs	Not-for-profit organizations
ACCA	Association of Chartered Certified Accountants
DCFIs	Community Development Financial Institutions
CDFA	Community Development Finance Association
SCFP	Shari’a Compliant Financial Products
LAUM	less Affluent UK Muslims

Chapter 1

INTRODUCTION

1.1 RESEARCH BACKGROUND

As Islam forbids the receipt or payment of interest (the basis of most conventional Western banking), many Muslims have chosen not to use their products and services. The result is that many have no banking history, creating another potential barrier to accessing banking services in the future (Hanlon, 2005)

We want to make sure that no one is excluded from financial services - no one unable to take up economic opportunities available to others - because of faith. That is why the Treasury has been working to create the right conditions in the UK for Islamic finance to thrive (Timms, 2008).

As the above two extracts suggest, some high-profile UK politicians and financial leaders claim that the main reason for encouraging Islamic finance in the UK is to combat financial exclusion among the 1.8 Muslims who are either outside or are at the margins of the financial services industry due to their faith. The argument is that the availability of *Shari'a*-compliant financial products would increase the financial inclusiveness of British Muslims as the hurdle of *Shari'a* incompatibility would be removed.

An implied argument, though not necessarily a valid one is that by introducing and encouraging Islamic finance, the UK government has tackled the financial exclusion of UK Muslims. Another implied argument is that UK Muslims would no longer have any excuse for remaining financially and socially excluded as they would now have access to financial products compatible with their faith. The implicit assumption here is that they will flock in large numbers to the institutions offering *Shari'a*-compliant financial products for their financial services needs. However, the reality on the ground may be different as the

consumer behaviour process of demanding and consuming financial products is rather more complex than that, and the above-mentioned predictions may turn out to be too simplistic and optimistic, if not unrealistic. Hence, it is the aim of this study to examine the above-mentioned assumptions in the light of the realities on the ground.

1. 2 SIGNIFICANCE OF THE STUDY

This study will examine the extent of financial exclusion facing less affluent UK Muslims as one of the most vulnerable minority groups in the UK.

It will also evaluate whether the introduction of Islamic finance in the UK has enhanced the financial inclusiveness of this community.

Although, I have not been able to locate any specific research conducted on the topic of faith-driven financial exclusion in the UK, the existence of the problem is explicitly recognised at the highest ranks of the UK political establishment, as the above-mentioned extract from the speech of the Financial Secretary to the Treasury for the period (Oct-2008 to 3rd August 2009, Rt Hon Stephen Timms) clearly shows.

Many UK Muslim community leaders and commentators are also of the opinion that the absence of genuine, competitive *Shari'a*-compliant financial products plays a critical role in the financial exclusion facing most UK Muslims in general and the less affluent members of this community in particular. Further, these commentators assert that many Muslims are particularly excluded from the main conventional financial products such as mortgages, personal, business and investment accounts due to the prohibition of *riba*¹

¹ *Riba* literally means increase and it refers to the additional money paid by a borrower to a lender

(interest) in *Shari'a*². The provision of these services in a manner compliant with their faith would be welcomed by this community provided it is deemed that the products offered are authentic, competitive and relevant to the consumers' requirements. In a BBC news report on the 14th June 2006 one of the *Shari'a* scholars advising Lloyds TSB - one of the conventional British banks offering *Shari'a*-compliant financial products to UK Muslims - linked the problem of financial exclusion to extremism and suggested that this was one manifestation of social deprivation. "Everyone needs financial services; we should see less and less exclusion and less extremism" (Knight, 2006). In my opinion financial exclusion does lead to social deprivation and discontent, but the link between extremism and financial exclusion requires further study before I jump to conclusions.

Perhaps, it is worth defining financial exclusion at this juncture as it is crucial to understand this term before I proceed, due to its importance in the current context. I must say though, that defining financial exclusion has not been easy due to its complex nature and vague interpretations, but some commentators have chosen to explain it as: "Processes that prevent poor and disadvantaged social groups from gaining access to the financial system". (Howell, 2005.p.2). However, others give it a narrower definition, and confine financial exclusion to the "access (or lack of access) to particular and specific products or services." (Howell, 2005.p.2)

It may well be true that the above definition fits the situation in which many UK Muslims find themselves. However, asserting that all UK Muslims are financially excluded could be an exaggeration and quite misleading, as the level of financial exclusion differs within the UK Muslim community. Indeed, there are some members of the UK Muslim community who are very affluent and are relatively content with accessing the

² *Shari'a* is the source of legal rulings for the followers of the teachings of the Islamic faith

abundantly-available conventional finance in the UK, however small their number may be. The majority though is believed to be financially excluded or on the margins of the financial services sector.

Some commentators argue that the introduction of *Shari'a*-compliant financial products in the UK would substantially enhance the financial inclusiveness of affluent UK Muslims through product diversification, as it has in other parts of the Muslim world (Asutay, 2008.p.1). However, it is a different story for the less affluent who represent a significant number of the 1.8 million UK Muslims as they suffer from extreme financial exclusion and its other consequential symptoms, such as social cantonisation and poverty.

1.3 RESEARCH PROBLEM

Less affluent UK Muslims are disadvantaged in many aspects like all other ethnic minority groups in Britain, but they also suffer from some additional problems specific to them due to their faith. As the former president of the Muslim Association of Britain, Anas Al-Tikriti told the media on 16th May 2006:

This is not the first study to demonstrate that British Muslims are living in the poorest situation among the other religious minorities in the country. This is the second study or research of its kind we have seen over the past three years (Maher, 2006)

As the above extract and others suggest, less affluent UK Muslims suffer from multiple problems which puts them in a very disadvantaged position.

Interestingly enough research which was conducted by researchers in different Universities such as Birmingham, Derby, Oxford and Warwick found that “14% of

Muslims aged over 25 were unemployed, compared with the national unemployment rate of 4%". It went on to say that Muslims were more likely than any other faith group to be "jobless and living in poor conditions (Maher, 2006).

It is evident from the above that the less affluent UK Muslim community suffers from significant poverty which is very complex and multifaceted. However, the researcher is of the opinion that lack of access to financial services has greatly exacerbated the plight of this community and the availability of suitable financial products would greatly enhance the economic power as well as the social status of the less affluent UK Muslim community. It is the hope of the researcher that the outcome of this research will be valuable to all parties concerned with the predicament facing this community, including the providers of *Shari'a*-compliant finance, the policy makers and Muslim social organisations.

The good news though is that this matter is gaining recognition at the highest ranks of the British political establishment as well by the UK financial services industry. In his speech at the London Chamber of Commerce & Industry on 27th June 2005, Callum McCarthy, Chairman of the Financial Services Authority, stated that the Financial Services Authority (FSA) is concerned about the financial exclusion of those who wish to practise their religion and who find themselves, for that reason, in a disadvantaged position as far as access to financial services is concerned. According to Mr McCarthy, the authorization of the Islamic Bank of Britain as the first purely Islamic Bank in Europe was one of the successes of the FSA in 2004 which, in his opinion, was an important step towards financial inclusion as the newly-established Islamic bank could serve the 1.8 UK Muslims with financial products consistent with their faith.

Mr. McCarthy was not alone in having high hopes for the newly-authorized, stand-alone *Shari'a*-compliant bank and the part other institutions providing similar products would play in tackling financial exclusion among UK Muslims. Indeed, there was a general belief across the board by a large number of UK Muslims, that the availability of such products would substantially reduce financial exclusion. The general consensus among the less affluent UK Muslim community too is that they would fully engage in the financial services sector if an authentic and competitive *Shari'a*-compliant alternative was provided for them. However, one of the objectives of this thesis is to establish whether the *Shari'a*-compliant financial products currently on offer in the UK have met the expectations of this community as far as accessing financial products is concerned.

1.4 RESEARCH OBJECTIVES

As stated earlier, one of the main objectives of this research is to find out if the introduction of *Shari'a*-compliant financial products in the UK has significantly improved the financial inclusion level of less affluent UK Muslims who represent a large segment of the 1.8 million UK Muslims.

Another major aim of this thesis is to understand the overall socio-economic structures as well as the banking behaviour of this community and their access to conventional finance prior to the introduction of Islamic finance in the UK.

The level of awareness of the less affluent UK Muslim community regarding the existing Islamic financial products in the UK, such as Islamic mortgages, will also be examined. In addition, less affluent UK Muslims' attitudes towards those *Shari'a*-compliant financial

products will be studied to find out if they significantly influence their access to such products

1.5 SPECIFIC RESEARCH QUESTIONS

The main research questions and their sub-questions are presented below.

1) How financially included in the UK conventional financial systems are the less affluent UK Muslim communities?

a) What are the socio-economic structures of the less affluent UK Muslim communities?

b) What banking, other micro-financial services and home-financing facilities are employed by these communities?

The above-mentioned first research question and its sub-questions aim to shed light on how well the conventional UK financial system meets the financial services needs of less affluent UK Muslims. The objective is to estimate the level of faith-related financial exclusion which is ignored in most research on the subject of financial exclusion.

Understanding the level and magnitude of religion-driven financial exclusion among less affluent UK Muslim communities may answer some important questions, including why the majority of UK Muslim communities such as the Somalis, Bangladeshis and the Pakistanis, who are some of the most entrepreneurial ethnic minorities in the UK, are lagging behind in their use of the UK financial services market.

The second major research question and its sub-questions are as follows:

2. What are the attitudes of the less affluent UK Muslim communities towards the existing *Shari'a*-compliant financial products and to what extent does this attitude influence their banking and home-purchasing behaviour?

a) What is the level of awareness of the less affluent UK Muslim communities regarding the existing *Shari'a*-compliant financial products in the UK?

b) What is the perception of the less affluent UK Muslim communities regarding the existing *Shari'a*-compliant financial products?

c) Has the introduction of *Shari'a*-compliant financial products in the UK significantly enhanced the level of access to financial products of less affluent UK Muslims?

The second question and its sub-questions are also aimed at enlightening us on how well aware the less affluent UK Muslim communities are of the existing *Shari'a*-compliant financial products in the UK and what their attitudes are towards these products. Finding out to what extent the introduction of *Shari'a* compliant financial products in the UK has significantly improved the financial inclusion level of less affluent UK Muslim communities is the final sub-question of this main question.

The goal is to establish whether there is a link between the level of awareness and the level of access. Also, understanding the attitudes of less affluent UK Muslims towards the existing Islamic financial products is very important in explaining the much-talked-about limited take-up of the existing *Shari'a*-compliant products such as home purchase schemes which have been around for quite a while, but are still struggling to gain the confidence of the UK Muslim community in general and less affluent members of this community in particular, as confirmed by earlier studies on the subject of demand for Islamic financial services in the UK (Dar, 2004.p.23)

1.6 RESEARCH HYPOTHESES

The research hypotheses will determine the parameters of the research questions and the methods to be employed in testing the hypotheses should be relevant for both the research questions and the research hypotheses.

Below is a summary of my research hypotheses

1. Less affluent UK Muslims are financially excluded from the mainstream UK financial system
2. The socio-economic structure and religiosity of the less affluent UK Muslim communities play a significant role in the level of financial exclusion suffered by these communities.
3. The less affluent UK Muslims prefer *Shari'a*-compliant finance to conventional finance under normal circumstances
4. The introduction of *Shari'a*-compliant financial products such as home-financing schemes has not significantly improved the level of financial inclusion among the less affluent UK Muslim communities.
5. The major reason for the low take-up of the current *Shari'a*-compliant products on offer in the UK is due to profound scepticism about the *Shari'a* compliance, perceived or real expensive pricing and lack of awareness about such products.

1.7 RESEARCH DESIGN AND METHODOLOGY:

The objective of research design is to guide the research process from start to finish by providing the framework within which all the necessary work will be carried out. The work to be carried out by the researcher should be relevant to the problem being studied and the procedure of conducting the research should be economically feasible and realistically attainable. Thus, the nature of the study and the resources available to the researcher will greatly influence the research design. Generally speaking, research can take the form of three basic designs. It can be exploratory, descriptive or causal.

Based on the above broad classifications and the limited resources available to the researcher, this study is classified best as exploratory and descriptive.

Since it is exploratory in nature, the sample survey would be the most appropriate method of data collection. According to this method, data is only collected from a portion of the population and from that data appropriate inferences about the population can be made. Even though this means that the sample serves only as an approximation of the entire population, it has been recommended as it could actually be highly accurate if done with care.

Having decided the overall research design, one has to choose suitable methods for this particular research, for the collection of relevant and reliable data that will provide satisfactory answers to the research questions, as types of data vary greatly and serve different purposes in different situations.

The selected research methods for this research are survey questionnaires and semi-structured interviews. Each of these tools has been chosen on merit with specific

objectives in mind. For instance, the survey questionnaire will be used to collect relevant and reliable data about less affluent UK Muslims.

It will also gather crucial information on the level of financial exclusion among less affluent UK Muslims as well as their awareness of and access and attitudes to the available *Shari'a*-compliant financial products.

This method was chosen for this purpose as it can be used for the collection of various types of information including attitudinal, motivational, behavioural and perceptive data (Robson, 2007.p.232) as we have explained above.

On the other hand, semi-structured interviews are usually used to find answers from the respondents to specific questions. In this research, UK-based practitioners and scholars of Islamic finance will be interviewed with the aim of finding reasonable answers to the research questions.

1.8 OUTLINE OF THE RESEARCH CHAPTERS

This chapter, as the first research chapter, is the introductory chapter of the thesis and outlines the research questions, research objectives, hypotheses and research methodologies as well as the chapter contents.

Chapter Two will introduce the theory on the subject of financial exclusion covering the definition of the term, its causes and consequences as well as the various policy responses and financial inclusion initiatives adopted by different regimes around the world. In this chapter, I will familiarise myself with the extent of financial exclusion in both the developed and the developing world. I will try to fully understand what the major

causes of this problem are and how it impacts on people's lives. I will try to define the term 'financial exclusion' and pinpoint the major underlying causes, though this may prove difficult given the limited amount of literature on the subject, coupled with the complex and multifaceted nature of financial exclusion. However, the researcher will try his best to establish the most common definition for this term and trace all the possible causes with a view to using it as the basis for finding practical answers to the predicament of those affected by this acute problem.

Chapter Three will further explore the extent of financial exclusion in the UK as a developed country where the issue is being seriously addressed at the highest political level. I am especially concerned with faith-related financial exclusion due to its great importance to this dissertation.

The impact that financial exclusion has on less affluent UK Muslims will be more specifically examined in order to ascertain the scale of the problem and this will contribute to the overall objective of proposing relevant and feasible solutions to tackle this problem.

To understand the driving factors of financial exclusion among the less affluent UK Muslims, the chapter will also examine the socio-economic structures of the Somali, Bangladeshi and Pakistani communities. The social structures of these communities and their banking behavioural patterns will also be investigated in order to determine how this impacts on their access to both conventional and Shari'a-compliant financial products.

Chapter Four is concerned with the role Islamic finance should play in combating financial exclusion and other closely-related social problems such as poverty and social

depreciation. *Qur'anic*³ verses and *ahadith*⁴ on the subject of social responsibility in Islam will be discussed and their implications examined. Charitable Islamic remedial tools for fighting financial exclusion as well as poverty such as *qard hassan*⁵, *awqaf*⁶ and *zakat*⁷ will also be considered. The relevance of the concept of micro-financing to Islamic banking in providing *Shari'a*-compliant finance for the poor will be briefly looked at and the gap between the theory in Islamic finance literature and its practical application will be analysed. Further, this chapter will introduce the history of Islamic banking in the UK with the objective of understanding the various stages that the development of *Shari'a*-compliant finance has gone through. The distinctive features of *Shari'a*-compliant financial products offered at each phase of this development process will be briefly evaluated to see the extent to which such products have increased the financial inclusiveness of less affluent UK Muslims. The *Shari'a*-compliant home-financing plans currently on offer in the UK will be specifically examined to see if these products are suitable for the financial services needs of *Shari'a* observant UK Muslims in general and the less affluent members of this community in particular.

Chapter Five, will discuss the financial inclusion initiatives in the UK covering both public and private schemes aimed at combating financial exclusion

The main objective of this chapter is to examine the extent of community development finance in the UK and the products on offer. These include the products provided by the

³ The literal meaning of Qur'an is recitation and it is the sacred religious text of Islam. According to the Islamic faith, it is the word of God which was revealed to Prophet Mohammed (PBUH) through Angel Jibril (Gabriel) as the last Divine Guidance for Mankind.

⁴ Plural of *hadith* (tradition of the Prophet Mohammed)

⁵ Qard Hassan means gratuitous or beneficial loan which is a loan given to a borrower without charging interest as payment and receipt of interest is prohibited in Islam. In fact it is the only type of loan acceptable in Islam. It is sometimes referred to as "benevolent loan" and that is the term used for the rest of the thesis

⁶ Awqaf is the plural of waqf which means endowing or blocking one's property for a certain charitable cause. For instance one can endow or block his house whereby all the rental income from the same could eternally be spent on some charitable purposes.

⁷ The literal meaning of Zakat is purification and it is mandatory on all Muslims to give a portion of their wealth to the poor to purify their wealth.

community development financial institutions and the governmental schemes which are accessed by the less affluent UK Muslims. Since this study is about the financial services accessed by less affluent UK Muslims, the availability of *Shari'a*-compliant community development financial products in the UK will be examined.

Chapter Six will introduce the research design and methodology for this thesis. The importance of research design as the guiding tool of the whole study and the critical role it plays in directing the work to be carried out will be set out. The chosen research methodology will also be explained, citing the selection criteria with supporting arguments for it. Details are also provided at the various stages of practical field work and the tasks involved in each phase. The concept of data reliability and validity will also be tackled in this chapter to explain how it will be incorporated into the research process in order to increase the accuracy and objectivity of the research results.

Chapter Seven will introduce the statistical analysis of the survey questionnaire to be carried out by the researcher. Some detailed and complex statistical analysis on the survey questionnaire will be tackled in Chapter Eight, however the objective of this chapter is to summarise the survey questionnaire and map the relevant responses to the research questions.

The characteristics of the sample respondents such as their age, ethnicity, gender and level of education are described. Similarly, some descriptive statistical tables will be presented and explained to gain a better understanding of the sample respondents.

Chapter Eight is where the survey questionnaire will be analysed in detail by conducting the relevant statistical analysis, including both descriptive and inferential statistics. The aim is to extract as much information as possible from the data in order to answer the

main research questions. Respondents' access to conventional finance will be assessed by studying their responses in order to answer the first main research question.

The perceptions of less affluent UK Muslims regarding the *Shari'a*-compliant financial products on offer will also be looked at to find a reasonable answer to the second main research question. All the relevant statistical analysis will be employed to achieve the research objectives of finding relevant and reliable answers to the research questions.

Chapter Nine is an analysis of the semi-structured interviews conducted with a number of UK-based Islamic bankers and scholars. In this chapter I will study the responses of the interviewees in order to learn about the distinctive features of the *Shari'a*-compliant financial products currently on offer in the UK. The aim here is to assess the suitability of these products for their intended users. A connected but separate objective of analysing the responses given by both UK-based Islamic bankers and scholars is to find out how popular *Shari'a*-compliant financial products are among less affluent UK Muslims, and whether the provision of these financial products is contributing to the reduction of financial exclusion among less affluent UK Muslims.

Chapter Ten is the final chapter of this thesis where the research findings will be summarised and recommendations presented. It will revisit the research objectives and the overall content in order to demonstrate the link between the research questions, the findings and the proposed recommendations.

Chapter 2

INTRODUCTION TO FINANCIAL EXCLUSION

2.1 WHAT IS FINANCIAL EXCLUSION?

Exclusion of the poor from the financial system is a major factor contributing to their inability to participate in the development process. Building an inclusive financial system therefore is a central goal of policy makers and planners across the globe (Obaidullah & Abdul Latif(eds., 2007.p.1)

Financial exclusion has gained momentum in the developed world since the late1990s and has attracted huge public interest in many countries including Britain. Many politicians, academics and some interest groups have paid special attention to the subject due to the increased concern about the level of social cantonisation in the industrialized world. However, the idea has not yet gained ground in the developing world, due the absence of a developed and comprehensive financial system that can prompt the debate itself, as financial exclusion may be the norm rather than the exception (Carbo, Gardener and Molyneux, 2005.p.145).

There is a general consensus among commentators on the subject that financial exclusion may be either a cause or a consequence of social exclusion, or both (Howell, 2005.p.7).

Although some authors, both academic and professional, have attempted to define what the term means, so far there is no one clear-cut definition of financial exclusion. Some commentators prefer to define it very broadly as: "Processes that prevent poor and disadvantaged social groups from gaining access to the financial system." However,

others give it a narrower definition, and confine financial exclusion to: “the access (or lack of access) to particular and specific products or services” (Howell, 2005.p.2)

One of the most comprehensive definitions for the term is as given below:

Financial exclusion can be defined in either a narrow or a broad sense. In the narrow sense it has been defined as exclusion from particular sources of credit and other financial services (including insurance, bill-payment services, and accessible and appropriate deposit accounts). In the wider sense it refers to factors which have the effect of shutting out of the less well off from mainstream money services (Sinclair, 2001.p.9)

In simple terms financial exclusion means lack of access to financial services, but it takes different shapes, wears many hats and can be manifested in various forms by different groups (FSA report, 2000).

Other authors simply explain financial exclusion as a situation where a proportion of the population has limited access to mainstream financial services (Delvin, 2005.p.30).

The concept of financial exclusion has been the subject of increasing interest and debate due to the fact that it is central to the wider issue of social deprivation.

Previous studies on financial exclusion in different countries have generally focused on a particular financial product or service such as bank accounts and have incorporated different methods and models of investigation.

Thus, comparing and contrasting significant influences on exclusion across a range of financial services proves problematic and compounds the problem of finding an easy definition for financial exclusion. However, there is almost consensus among experts that financial exclusion is mainly associated with the problem of access which can be limited

by affordability or self-exclusion due to negative perceptions about the available services (Carbo et al 2007.p.7).

2.2 CAUSES OF FINANCIAL EXCLUSION AND THOSE MOST LIKELY TO BE AFFECTED BY IT.

It is very difficult to pick out one particular reason for financial exclusion. However, there are several factors that definitely act as catalysts for this phenomenon, including the restriction of physical access due to banks closures in disadvantaged neighbourhoods, higher charges for services required by the poor, inappropriate products and biased marketing strategies (Sinclair, 2001.p.31).

Some commentators who focus on the macro aspect of the problem say the major causes of financial exclusion include low income, unemployment, irregular and/or casual work, lack of financial literacy, poor financial habits and geographical remoteness (Howell, 2005). However, it is generally agreed that the causes of financial exclusion are very complex and therefore identifying any single factor that can explain financial exclusion becomes almost impossible. For instance, low income causes further problems such as lack of savings which again causes a lack of funds or assets. Likewise unemployment further begets low income which is one of the most frequently-mentioned drivers of financial exclusion according to Nicola Howell (Director of the Centre for Credit and Consumer Law, Griffith University).

Similarly poor financial habits or lack of financial literacy causes lack of savings which then leads to lack of assets and the vicious cycle is once again refuelled. Paradoxically, other authors suggest that the problem of financial exclusion is a direct result of

increased financial inclusion, thus reminding us of the famous dictum of 'one man's gain is another's loss'. According to a comprehensive report compiled by the Financial Services Authority: "The problem of financial exclusion has, ironically, resulted from increased inclusion that has left a small minority of individuals and households behind" (FSA report, 2000).

Another reason for financial exclusion, according some commentators, relates to the competitiveness of the financial services industry where the providers of financial services view people on low incomes as unworthy of their services, thus resulting in a minority of the population having needs unmet by the competitive financial services market (Kempson, 2001.p13).

One particular type of financial exclusion that will be covered in this study is faith- or religion-driven financial exclusion which has been briefly described in earlier studies on the subject, but has never been fully investigated.

Ethnicity itself is believed to be a major reason for financial exclusion in some developed countries, including Britain, and the effect of ethnicity on people as far as financial exclusion is concerned is relative. For instance in the UK those who were classified as ethnic Muslims are many times more likely to be financially excluded than their counterparts in the same category. For instance, it is reported that being Pakistani makes someone four times as likely to be without a bank account while being Bangladeshi triples the odds (Kempson, 2001.p14). Lack of trust of British banks coupled with language and cultural barriers are the main cited reasons for the acute financial exclusion suffered by the less affluent UK Muslims.

It is general consensus among many commentators on the subject of faith-related financial exclusion that the lack of *Shari'a*-compliant⁸ products is the major reason behind the wide financial exclusion which exists among various Muslim communities in many parts of the world, including UK Muslims. As one of the *Shari'a* scholars advising Lloyds TSB, which has recently started offering Islamic financial products through its 12,000 strong branch networks in the UK, told the BBC in June 2006: "Access to *Shari'a*-compliant financial products would ultimately mean "less exclusion and less extremism" (Knight, 2006).

He was also quoted as saying:

Everyone needs financial services. We should see less and less exclusion and less extremism. The spread of Islamic financial services would help combat social and financial exclusion amongst the UK's 1.6 million Muslims (Knight, 2006)

As the above literature suggests a major portion of the financial exclusion among Muslims in countries where Islamic financial products are in short supply could be linked to religiosity. In fact, it is evident that this explanation is gaining strong recognition in the UK and it is the reason why some of the highest ranks of the UK's political establishment are paying special attention to this problem. Some of the concerned people include the current UK Prime minister and former Chancellor, Gordon Brown, who has called for the UK to become the centre of Islamic finance and has subsequently reformed the UK tax system to make *Shari'a* compliance easier.

The UK is no doubt in the driving seat in this matter among Western countries, as the matter of faith-driven financial exclusion is also being seriously addressed by the Financial Services Authority, which is the regulating body of the entire financial services industry in the UK.

⁸ This refers to financial products and services that comply with the Principles of Islamic Law(*Shari'a*) as Muslims are prohibited from accessing any finance involving the payment and receipt of interest(*Riba*)

Although faith-related financial exclusion deters many social groups and individuals from accessing certain financial products, the causes of the problem are wider and more diverse. As I will discuss in the coming sections, causes of financial exclusion have been grouped into societal, supply and demand factors.

2.2.1 Societal Factors

According to some authors including Kempson (2000), Anderloni and Carluccio, (2006) and Atkinson (2006), societal factors play an important role in the financial exclusiveness of certain social groups and individuals. For instance, the increased liberalization of financial markets, which has led to the creation of more sophisticated and varied financial products, has increased the financial inclusion of the well off, while the poor are still trapped in their vicious cycle of social deprivation and poverty. Similarly, tighter rules on financial transactions to combat financial crimes, such as money laundering, bars some people from accessing certain financial services and products in some countries.

Some demographic shifts, income inequality and structural labour changes are also thought to have an impact on the level of financial exclusion of certain social groups. Similarly, technological advancement leads to some sort of financial exclusion as the older generation cannot cope with the increased dependency on technology as most traditional banking services have been taken over by modern technology, such as internet and phone banking.

Another key societal factor that substantially increases financial exclusion is what is known as “self-exclusion” which refers to cultural and psychological barriers to financial services when the less well-off feel that financial service are “not for people like us” (Mitton, 2008; Kempson et al, 2000; Collard et al, 2001).

Some commentators are of the opinion that a major portion of this type of financial exclusion is fuelled by religious and cultural motives and is recognized across the board as one of the most difficult and prevalent deterrents holding back the unbanked communities as suggested by experts including Westbury (2002) and Buckland et al (2003) who believe that the indigenous populations of Australia and Canada are prevented from using banking services due to psychological and cultural barriers. In the same way, according to Collard et al (2001 and Kempson and Whyley (1998) Pakistani and Bangladeshi communities in Britain are excluded from banking as transactions can cause them to become inadvertently overdrawn, which is *haram* (forbidden) under Islamic law.

Apparently, the provision of inadequate financial services, poor advice on product selection and vague terms and conditions also contribute to the financial exclusion of certain social groups as discussed above.

2.2.2 Supply Factors

It is evident from the available literature on the causes of financial exclusion that the majority of commentators on the subject mainly concentrate on the supply factors as they are the most obvious and common reasons for this problem. Basically this occurs as a result of the financial institution's failure to offer appropriate and affordable financial products to the less well-off, whose financial services needs are quite different from the needs of the affluent. Refusal by banks, identity requirements, unfavourable terms and conditions, excessive bank charges, geographical remoteness and technological advancements are some of the major ingredients of the supply factors of financial exclusion. However, the supply factors can be generally grouped as follows:

1. Access exclusion which refers to access barriers such as geographical and physical exclusion of people living in disadvantaged neighbourhoods. This type of financial exclusion is the result of financial institutions moving out of certain areas deemed too risky and unprofitable, which is usually prompted by increased competition and cost-cutting strategies of banks. Technological advancement such as the availability of cash machines and telephone and internet banking also lead to unprecedented bank closures in poor urban neighbourhoods and small rural communities (Kempson et al, 2000; Collard et al, 2001)

2. Condition exclusion which refers to being excluded due to certain conditions such as failing to pay the minimum deposit required for opening certain accounts. Banks may refuse to offer banking services to some people if they fail certain conditions such as credit history checks and required income threshold due to their low income, as banks perceive them to be high-risk and unworthy customers. Identity requirements may also affect certain groups such as the homeless and refugees who normally cannot provide the required identity for account-opening purposes.

Many more people are affected following the tighter rules introduced lately in the Western world to fight certain finance-related crimes such as money laundering and terrorism. Terms and conditions also deter poor people from opening particular types of accounts as they cannot meet the imposed conditions and terms, such as paying the required minimum balance. Some countries are more stringent in this respect than others. For instance, in countries like France, Canada, the USA and Australia, a minimum balance requirement for opening an account, which is normally beyond the financial capability of the poor, is common (Kempson et al, 2004; Caskey, 1997) whilst in other countries, such as Belgium, bank accounts are closed if the account balance falls

below a certain threshold. In Britain, one of the major causes of financial exclusion is the absence of safeguards against unintentional overdrawing (Kempson et al, 2004) which causes a great deal of inconvenience for the less affluent, as the end result is usually bounced cheques and cancelled direct debits with severe financial penalties. This costs a lot for someone living on benefits and surely discourages a lot of them from maintaining and using bank accounts at all.

3. Price exclusion which refers to being excluded by the cost of particular financial products and services. Bank charges act as a deterrent when people on low incomes are required to pay charges they cannot afford.

This problem is widespread among the developed countries and interestingly, Britain turns out to be one of the best countries in this respect as most British banks do not charge for account transactions as long as the account is maintained with a reasonable balance.

2.2.3 Demand Factors

This refers to the cultural and psychological factors that deter some people from accessing certain financial products. For instance, poor people feel that banks are not for them and therefore they mistrust them and seek other means of handling their finances. Also, elderly people generally feel uncomfortable using modern technology, such as the internet, and prefer traditional ways of managing their finances. Perceived or real high costs of maintaining bank accounts may also discourage people from accessing financial products. Some are worried about losing their money should the bank go bankrupt as we have recently witnessed in some parts of the world, including some Western countries.

Others are concerned about employing modern technology to manage their finances, such as internet banking, due to the fear of financial loss through on-line identity theft or some other type of fraud such as internet hacking. This is a justifiable concern for many and is thought to be one of the demand-related factors that stop people from demanding certain financial products and services.

The marketing methods employed by financial institutions may also exclude certain sectors of the population from demanding financial products. Most of the commercial publicity of the banks targets the affluent, which instils in the less affluent the negative feeling that financial products are not for them and drives them away as they feel alienated and excluded by these adverts and look for alternative means of managing their finances.

2.3 WHO IS FINANCIALLY EXCLUDED?

Financial exclusion affects more than 2 billion people in the developing world, which accounts for about 41% of the people living in this part of the World (<http://www.dfid.gov.uk/Media-Room/Speeches>, accessed July 2008) while it excludes on average between 1% and 17% of those living in the developed world (Kempson, et al, 2004.p.2). However, the underlying principles are very similar across the board as low income is the common denominator for the excluded wherever they may be (Anderloni and Carluccio, 2006.p.12).

As we have noted earlier, levels of financial exclusion vary between developed and the developing countries as they do within the same group of countries (developed or

developing), however various studies have confirmed that it is the same group of people who are always financially excluded. The mostly cited financially-excluded groups include the long-term unemployed or those with unstable work patterns, the elderly with no or few assets, lone parents who cannot work due to family commitments, people without educational qualifications and the financially illiterate, ethnic minorities and immigrants where community influence leads to financial exclusion, driven by cultural and religious factors, people who live in deprived neighbourhoods with high levels of crime, people with a history of bad debt whose accounts are usually closed as a result of not repaying or reducing their overdraft facilities and find it difficult to open another account.

Studies show that financial exclusion in Europe is high among migrant communities who are predominantly Muslims. This could be closely linked to a lack of *Shari'a*-compliant finance, although I was unable to locate any empirical evidence validating or nullifying this argument.

The level of financial exclusion in a particular country depends on many factors although the level of income inequality influences this problem to a great extent. For instance the level of financial exclusion is lowest in countries with the least income inequality (measured by the Gini coefficient which equals the income after taxes and takes into account the size of the household) (Kempson et al, 2004,p.1).

According to a report on financial exclusion by the European commission in March 2008, in this regard European countries are classified as follows:

1. Countries with low levels of financial exclusion, where only 3% of the population is thought to be financially excluded. This includes Luxembourg, Belgium, Denmark, Netherlands, France and Sweden

2. Countries with medium-low levels of financial exclusion where 3-8% are financially excluded. The United Kingdom, Finland, Germany and Spain are among these countries.

3. Countries with medium-high levels of financial exclusion where 12-28% of the population is financially excluded. Italy, Ireland, Portugal and Greece belong to this group.

4. Countries with high levels of financial exclusion where 34% or more of the population are thought to be financially excluded. Hungary, Poland, Lithuania and Latvia are included in this group.

Studies further revealed, reiterating our earlier assertion, that on average the same group of people are financially excluded in every case, regardless of the level of financial exclusion of the country in which they live (Financial services provision and prevention of financial exclusion: European Commission Report, 2008)

2.4 WIDER IMPLICATIONS OF FINANCIAL EXCLUSION

Financial exclusion holds back its victims from progress and development by imprisoning them in a vicious cycle of social deprivation and poverty. It is impossible to measure the overall impact of financial exclusion on the excluded due the complex nature of this problem, However, the fact that it is closely interconnected with poverty, level of education, unemployment, health, family breakdown and exploitation from illegal and predatory lenders is highly documented (McKillop and Wilson, 2007,p.9).

Wider implications of financial exclusion include social and financial consequences that have a detrimental effect on the excluded.

Financial consequences affect the way people access financial services as well as how they use them, whilst social consequences have a larger impact due to their effect on the consumer's overall economic and social behaviour. In the coming sections, I will deal with these two issues separately, starting with the financial consequences of financial exclusion.

2.4.1 Financial Consequences of Financial Exclusion

The financial consequences of not having a bank account could be really painful due to the inconvenience and the extra cost associated with it. For instance, receiving a cheque in your name from a third party means paying extra money to get it cashed which is why there are flourishing remitting agencies and cheque-cashing enterprises in some countries. These enterprises are the only option open to those who cannot access banking services and therefore they have to pay a huge premium for being excluded.

The financial consequence of financial exclusion is attracting huge attention in some countries including Australia, Britain, Canada and the United States, where the high charges paid by the unbanked is a real cause for concern. Paying bills also costs the excluded more than those who pay their bills via direct debits, despite the fact that they are the most disadvantaged and the poorest members of the community (Kempson et al, 2000, Corr, 2006). They miss out on many deals such as the regular discounts offered to those paying their bills electronically as well as losing out on promotional prices often offered at some retail outlets for people who can purchase on debit or credit cards.

Another major problem that is exclusively traceable to financial exclusion is the additional costs paid by the excluded for the same services accessed by their counterparts. In

today's world everybody needs to access financial services as it is almost impossible to survive otherwise, but the irony is that the financially excluded pay more despite being the poorest, which again is disheartening for those affected. In most countries utility suppliers charge more if the payment is not made through direct debit or electrically transferred, which means the poor will pay more as they are excluded from the highly banked and cashless economy (Strelitz and Kober, 2007.p.10).

One of the most serious financial consequences for the financially excluded arises when they are in financial difficulties and urgently need to access finance, but cannot do so because they are excluded from the mainstream financial system. Hence, they have to raise the required finance from the sub-prime market and unlicensed lenders such as loan sharks whose charges are extortionate. The financial consequence of raising finance through these intermediaries is very serious and far-reaching for the excluded, who are the poorest and the most vulnerable members of society and cannot afford such extortionate charges (Collard and Kempson, 2005; Corr, 2006; Treasury Committee: 2006a). This practice is widespread in the UK where the persistent problem of extortionate credits from unlicensed money lenders and illegal 'loan sharks' is a real cause for concern. It was estimated that in 1994 some three million households in the UK depended on such sources of credit, which charge interest rates of up to 500% and often enforce repayments by threat of violence. The Department of Trade & Industry (DTI) subsequently commissioned a report on extortionate credit in the UK in 1998 which estimated that only a 'few hundred thousand at most' suffered from extortionate credit of this kind. However, this is still a serious problem given that such people are likely to be among the most vulnerable in society. The authors of this report faced the problem that there is no fixed definition of what would count as 'extortionate' credit. They also found that there were many perfectly legal lenders with Consumer Credit licenses which

charged annual percentage rates of up to 1,000%. Exploiting the excluded by charging them extortionate interest rates and capitalizing on their predicament is commonplace in some European countries, including Britain.

According to the campaign group Debt on Our Doorstep, running a home without access to basic banking services costs an average of £5 a week more (www.pfrc.bris.ac.uk/reports/extortions, accessed on the 20th August 2008). This is a substantial cost for households which can least afford it.

Financially-excluded households are more likely than any other to use the services of companies such as Provident Cheques and Shopacheque which specialize in high-interest loans to low income households and can charge repayment rates of between 100% and 500% APR. Low-income customers also make higher-than-average use of loans from pawnbrokers such as Cash Converters and credit retailers which buy and sell at high interest rates. For instance, it is quite normal for a poor person to get some durable goods like a fridge or a TV and end up paying double the amount they have originally borrowed as the interest charged was extortionate as a result of poor financial skills and the absence of alternative financing arrangements.

2.4.2 Social Consequences of Financial Exclusion

There are many negative social implications of being without a bank account in countries where the majority are highly banked. The feeling of being the odd one out and always asking for assistance from others whenever you have to receive or pay funds through a bank account seriously affects the self-esteem and the social standing of the excluded. As I discussed earlier, when faced with financial hardship, the excluded usually resort to

unlicensed lenders, such as loan sharks, who charge them extortionate rates and employ violence and intimidation tactics if the borrower cannot pay on time. This has a terrible negative psychological and social impact on them and occasionally leads to more serious, long-term health problems such as stress and chronic depression (Balmer, 2006). Such consequences are quite common in some European countries such as Italy, Slovakia and Germany.

This bitter experience may also have a long-term effect on the person's well-being as it might be difficult for them to move into the labour market again and regain their self-esteem and social status. Furthermore, as various studies have confirmed, financial exclusion reinforces social deprivation. The effects of this are not confined to an individual, but affect a whole community creating an under-class who are financially and socially excluded from mainstream society with serious long-term social disintegration and lack of social harmony.

Various studies conducted on the subject have confirmed that financial exclusion is central to the wider problem of social cantonisation. The fact that financial exclusion is closely linked to social deprivation is officially recognized in many parts of the world including in Europe.

In some countries this is reflected in their social inclusion policies which emphasize the importance of combating financial exclusion as part of the overall strategy of tackling social deprivation. For instance, in the UK financial exclusion is at the heart of the social exclusion unit's policy on tackling the issue of social exclusion where it is treated seriously by those involved in policy making.

As financial exclusion is very much located at the heart of social exclusion, there are some social repercussions that can be directly attributed to financial exclusion. In the following paragraphs, I will explain some of those problems.

Financial exclusion denies a segment of the society the opportunity to be active and productive members of the community and thus impedes them from fully integrating and contributing to the well-being of the nation in which they live. This in turn will create other social ills, such as lack of social cohesion and social disintegration, and the social groups affected will be pushed further into the poverty trap.

Moreover, financial exclusion has a detrimental effect on how people run their lives and puts them in a very difficult position where they feel that they have lost control of their lives, causing anxiety and bringing about severe personal and community consequences.

2.5 PUBLIC DEBATE ON FINANCIAL EXCLUSION

There has recently been a growing and persistent concern about the problem of financial exclusion in most of the developed countries. As I mentioned earlier, this has partly been driven by the increased availability and usage of banks in these countries, which has led to the financial exclusion of some social groups and individuals (Kempson et al, 2004). The fact that financial exclusion is at the heart of social deprivation is the driving force behind this debate and there is general consensus among commentators and policy-makers that combating financial exclusion should be central to all social inclusion strategies and policies. However, the history of combating financial exclusion is older in some countries than others. For instance, in Sweden the law guaranteeing that

everybody can at least have a deposit account was passed in 1987 under section 2 of the Banking Business Act 1987 and in France the same was passed in 1984 under article 58 of the Banking Act, 1984 which gave every French citizen the legal right to open a bank account. However, it was only in 1997 that the USA Federal Government passed the Community Reinvestment Act, with the aim of ensuring basic banking services for the excluded, although the Act did not go into the specifics of the guaranteed banking services.

Within Europe, France and the United Kingdom are at the forefront in this respect as they treat the subject very seriously and the problem is looked at strategically and debated at the highest political level. Conversely, the matter is not nationally debated in some of the newer European Union member countries, such as Bulgaria, Lithuania, Poland and Slovakia, according to the European Commission report on financial services provision and prevention of financial exclusion (2008). Nevertheless there are some positive signs and practical moves in this direction in all these countries, as the rest of Europe has already made substantial progress on this front.

2.6 POLICY RESPONSES TO FINANCIAL EXCLUSION

As I discussed earlier, financial exclusion is officially recognized as one of the key components of social deprivation in almost all the countries in the industrialized world. Some of the most popular policies proposed by these governments for tackling financial exclusion include voluntary charters developed by the banks in these countries in consultation with their trade associations. Others have opted for passing legislation specifying the right of individuals to basic banking services. In the next section, I will look

briefly at both initiatives to discover the extent of their effectiveness as far as tackling financial exclusion is concerned.

2.6.1 Voluntary Charters and Codes of Practice

Encouraging initiatives have been adopted in some Western countries, by the majority of their commercial banks, to enhance the financial inclusion of some social groups and individuals who are either financially excluded or are at the margins of financial services. Some of the services offered for this purpose include developing more financial products that can meet the financial services needs of the excluded. This practice has gained momentum in some European countries such as Belgium, the United Kingdom, Germany and Italy, where some new financial products have been developed by the commercial banking sector in response to the needs of those on low incomes who cannot access the mainstream financial services. In most cases, this involves the development of simple, low-cost bank accounts that do not have an overdraft facility to avoid the inconvenience this may cause for those with low and unstable income patterns. These are basically self-imposed codes of conduct, developed by the banks themselves through their trade associations as a response to the problem of financial exclusion, which encourage the provision of basic banking services to those excluded groups and individuals. Although this comes directly from the banks themselves, the government is usually indirectly involved as part of the overall strategy of social inclusion. However, the introduction of this practice varies between countries, with France pioneering it in Europe in 1992 when the French Bankers' Association took the initiative to encourage all French banks to provide as many banking services as possible to the poor. Likewise, in Germany the German Bankers' Association introduced a voluntary code of practice with similar

objectives in 1996 and the same was done in Belgium in 1997 (Kempson et al, 2004). However, there was no need for formal charters in Britain and Australia as the objective of granting access to basic banking was achieved through voluntary arrangements with banks instead. There is a relatively more generic banking code in both these countries, which has substituted the need for formal charters (European Commission report on financial services provision and prevention of financial exclusion, 2008).

The extent to which these voluntary codes of practice have contributed to the reduction or eradication of financial exclusion is not very clear, but studies suggest that despite the formal acceptance of the charter banks did not implement them as they should have. For instance, on many occasions it was discovered that banks do not always promote these services successfully to potential customers, which would affect both their target and intended result.

2.6.2 Legislation

Some countries in the developed world have introduced legislation as a tool for combating financial exclusion, whilst others prefer self-regulation through voluntary charters. France, Belgium and the United states are some of the countries where banks have a legal duty to provide banking services to anyone who demands them. In France, the law was initially introduced in 1984 and was reviewed in 1998 with additional explanation and specifications of the type of banking services that should be offered to the public, as well as the maximum charges and tariffs that banks can claim for their services. The same law was introduced in Belgium in 2001, but became operational in

2003 with the aim of ensuring that banks comply with their legal duty of providing affordable and appropriate banking services to all citizens.

As a monitoring mechanism of the provision of these services, banks are required to provide statistical information on the number of basic accounts opened and should contribute to a compensation fund managed by the National Bank of Belgium which compensates banks that exceed their quota of opening basic bank accounts (Kempson et al, 2004).

The practice of using the law to fight financial exclusion is not confined to European countries, but similar initiatives are taken in other parts of the world, including the United States of America and Canada. For instance, although the Federal Government introduced legislation in 2002 to create simple and low-cost accounts for those who are financially excluded, the bill did not proceed to federal law status, despite the fact that seven states had incorporated it into their own state law.

The Canadian experience deserves some praise as it has done relatively well in this respect. The tactic they used is somewhat innovative and practical as it skilfully combines legislation and voluntary arrangement with the private sector. This started with the government passing a law, but allowing banks to provide the necessary banking services voluntarily, the failure of which permits the government to intervene and enforce the law. This system has worked well as most of the banks have opted for delivering the service voluntarily. It seems the old political dictum of “the stick and the carrot” has worked well here.

2.7 COMBINED VOLUNTARY AND POLICY MEASURES FOR OVERCOMING FINANCIAL EXCLUSION

I have mentioned in previous sections of this chapter that financial exclusion is affecting the lives of billions of people in the world. However, the causes of it vary across regions and nations and as I have noted, increased financial innovation and technological advancement is partly fuelling financial exclusion in the developed world. At the same time the absence of sufficient appropriate financial institutions and capital resources are the main reasons behind the widespread financial exclusion in the developing world.

In the next section, I will be looking at some of the proposals put forward to tackle financial exclusion in some parts of the developed world, while ways of fighting financial exclusion in developing countries will be discussed in another section at a later stage.

According to some commentators, the causes of financial exclusion can be divided into societal supply and demand factors as I discussed earlier. Arguably, all the measures introduced to tackle financial exclusion should revolve around these factors, as sorting out these issues would solve or at least contribute to the solution of the problem and I will therefore try to summarize the proposals suggested for achieving this objective under each heading as follows:

2.7.1 Measures for Tackling Supply Factors

Most of the measures proposed for tackling financial exclusion are supply-related solutions, as providing appropriate and affordable financial products would largely solve the problem of financial exclusion. Some of the most popular proposals on this front, in most developed countries, include the following:

1. Developing low-cost and appropriate accounts for those on low incomes who need basic personal accounts to manage their personal finances, without hidden charges and risks such as overdrafts and implied bank charges. Accounts that can be inadvertently withdrawn are not appropriate for the excluded and that discourages them from approaching banks based on their previous bitter experiences. Germany, Italy, the Netherlands and the United Kingdom are some of the countries where this practice is applied as a tool for combating financial exclusion with a reasonable degree of success, which varies between these countries. In most of above-mentioned countries, the commercial banking sector has assumed this responsibility as part of their social responsibility awareness.

2. Capitalizing on technological advancement could contribute to fighting financial exclusion. Although technological advancement itself is partly blamed for creating financial exclusion due to the poor's limited technological skills and lack of essential resources such as computers, some commentators are of the opinion that technology could be better utilized to tackle financial exclusion. One of the techniques regularly mentioned is the use of 'real-time-banking' which ensures that the poor do not overdraw inadvertently thereby causing them a great deal of anxiety and costing them dear. Again, this is already operational in some countries, such as the United Kingdom, where real-time accounts are opened for those on low incomes.

3. Credit Unions, Post Offices and community development financial institutions have an important role to play in combating financial exclusion. As they are not profit-oriented, they are in a better position to meet the financial services needs of those rejected by the commercial banks. Their large network of financial outlets together with their social outlook makes them more convenient and approachable to the excluded than their

commercial counterparts. These institutions are already quite popular among the less well off in some countries, including France and Belgium, where the Post Offices themselves offer banking services, and the UK where they act as local agents for the banks. However, in some countries, social banking is delivered through partnerships between commercial banks and some charitable and not-for-profit institutions. In the Netherlands, the Banker's Association (Nederlandse Vereniging van Banken or NVB) has worked with the Salvation Army in setting up a joint basic payment service for those who cannot access mainstream financial services. In the UK the Co-operative bank has worked with the Big Issue, which is a charity working with homeless people, to enable their clients to access the bank's basic account (European Commission Report on Financial Services Provision and Prevention of Financial Exclusion, 2008).

2.7.2 Measures for Tackling Demand Factors

The demand side of financial exclusion is mainly affected by the quality and quantity of information available and how it is disseminated to prospective customers to convince them to demand and access the financial products on offer. Financially-excluded people require financial education, through training and advice, to develop confidence in financial institutions. Hence, financial education offering detailed advice and counselling on the different financial products available, as well as suitable, honest, easily-understood marketing campaigns giving the right image and information about the products offered, would greatly help the excluded to recover from their fear and distrust of financial institutions and would ultimately encourage them to demand the appropriate financial products on offer. Some countries in Europe already have comprehensive financial education initiatives aimed at improving the awareness and the usefulness of

financial products and services. In Poland, for example, banks are actively involved in educating people about financial products and fund two educational initiatives to teach youngsters about financial matters, such as savings schemes, as well as sponsoring financial education in schools. Likewise, the Netherlands and the United Kingdom have fairly well-developed financial education schemes offering advice on money management, budgeting and financial planning

2.7.3 Measures for Tackling Societal Factors

As I have already mentioned, the issues that mainly drive societal factors are the cultural and psychological influences prompted by earlier negative experiences, which dissuade the excluded from accessing financial products and services. There is an overlap between all these factors and the measures proposed for tackling one factor could also substantially contribute to the reduction of others. For instance, financial education is crucial in tackling the demand aspect of financial exclusion, but would also largely contribute to tackling the societal aspect of the problem. The specific measures of tackling the societal factors of financial exclusion mainly encompass introducing legislation to deal with illegal lending and the encouragement of responsible lending. Strict overseeing and monitoring of the illegal sub-prime market, such as unlicensed money lenders and loan sharks who abuse the most vulnerable members of the society, is necessary if the societal factors of financial exclusion are to be addressed.

2.8 FINANCIAL EXCLUSION IN THE DEVELOPING WORLD

Although this study is concerned with financial exclusion in a developed country, the United Kingdom, it is relevant to look at the experience in the developing world as this is where the many of the financially excluded in the United Kingdom originate from.

I have explained in previous sections that the extent and the causes of financial exclusion in the developing world are different from those in industrialized countries. I have further noted that these differences mainly stem from the variations in the development stage of financial institutions and the absence of institutional financial infrastructure in developing, as opposed to industrialized, countries. In addition, financial exclusion affects the majority of people living in the developing world where it is estimated that the majority of the population of these countries are financially excluded. It is further reported that financial exclusion in this part of the world is closely linked to the broader issue of poverty and lack of capital resources (Carbo, Gardener and Molyneux, 2005.p146). The prevalent financial underdevelopment is believed to be one of the major causes of financial exclusion in developing countries, fuelled by a host of inter-related factors such as the dominance of state-owned financial institutions which are overwhelmingly inefficient, the absence of effective regulatory and accounting standards and the lack of trust by depositors due to the poor services offered by these financial institutions. The existence of sizable rural economies with all their inherent financing difficulties, such as the highly-volatile and risky contracts and information asymmetries, hugely contributes to the complex nature of financial exclusion in the developing world. Consequently, the proposed solutions are rather different from those suggested for the developed world in tackling financial exclusion.

In the next section, I will look briefly at some of the arguments put forward by various institutions and individuals concerned with combating financial exclusion in the developing world.

2.8.1 Establishing the Appropriate Financial Infrastructure

The extreme underdevelopment of the financial system in the developing world is closely tied to the absence of the relevant financial architecture. Therefore establishing it is a prerequisite for fostering diverse and effective financial institutions that can cater for the financial services needs of their populations. This needs to be promoted and encouraged through governmental policies as it cannot be left to the market forces to handle it. Establishing the right financial infrastructure would enable the formal financial institutions to flourish, which would in turn foster more investments and economic growth as well as fairer income distribution and financial inclusion. Nevin (2007) argues that there is enormous potential for commercial banks in Africa and other developing countries as there is a huge untapped market if appropriate financial products and services are provided for these potential clients.

2.8.2 Enhancing the Informal Financing Schemes and Micro-Financing Initiatives.

Perhaps, it is worth noting at this juncture that informal financial schemes such as Rotating Saving and Credit Associations (ROSCA's), moneylenders and pawnbrokers are the backbone of all financing activities in developing countries. This is because formal financial institutions are scarce and inefficient due to the overall macroeconomic

imbalance prevalent in most developing countries and the absence of institutional and legal infrastructures. According to Carbo, Gardener and Molyneux (2005), informal financial services such as ROSCA's, moneylenders, trade-related services and pawnbrokers are widespread in most developing countries. They further argue that these institutions dominate the financing sector of these economies as they have managed to overcome most of the difficulties faced by formal financial institutions, including information asymmetries and collateral issues. Consequently, they appeal to a large segment of the population, acting as viable alternatives for formal financial institutions to some extent, although they are limited in scope and cannot meet the financing requirements of large, long-term ventures.

Encouraging these informal financing schemes, with some refinements to their current operations, with the objective of facilitating the flow of funds to the communities where formal financial institutions failed, would greatly enhance the financial inclusion of the most vulnerable individuals and communities in these countries.

2.8.3 Micro-Financing as a Tool for Combating Financial Exclusion in the Developing World

Microfinance refers to the provision of loans to the very poor who cannot access finance elsewhere due to their poor credit rating. Usually, this is given in the form of small loans to help the recipient with small scale self-employment projects that might generate enough income to look after themselves and their families (Abdulrahman, 2007.p.2).

The basic underlying principle in most micro-financing schemes is the concept of joint liability which simply means that all members of the group are equally responsible for the

loan advanced to any member within the group. The idea is to put peer pressure on each member so that they repay the debt as early as possible, which would then guarantee that other members would receive loans and hence the success of the whole system depends on how well this peer pressure can be utilized to reduce the number of defaults and generate enough income to help as many people as possible.

According to Sajjad Chowdry in his article entitled "Creating an Islamic Microfinance Model - The Missing Dimension", the main features of Islamic Microfinance is the joint responsibility where money is paid to individuals within the group and repayment is a joint responsibility for all the group members. This means that if any of the members does not pay back their debt on time, the entire group loses as they will be denied further credit. This works well in many parts of the world as the unprecedented success of Grameen Bank's business clearly shows. In most cases, Microfinance institutions structure their credit in a way that the receipt of further credit depends on the repayment of the previous loan (Chowdhry, 2006.p.2)

Micro financing has been around for a long time and is seen by the major international financial institutions, such as the World Bank and the IMF as an effective way of alleviating poverty. There is no doubt that this is a growing industry with a promising future as far as financial exclusion and poverty reduction are concerned, as the following excerpt suggests.

The World Bank now estimates that there are over 7000 microfinance institutions, serving some 16 million poor people in developing countries. The total cash turnover of Microfinance Institutions (MFIs) world-wide is estimated at US\$2.5 billion and the potential for new growth is outstanding. The Micro Credit Summit estimates that US\$21.6 billion is needed to provide microfinance to 100 million of the world's poorest families. Other

estimates tell us that worldwide, there are 13 million micro credit borrowers, with USD 7 billion in outstanding loans, and generating repayment rates of 97 percent with 30% annual growth. Despite all this remarkable expansion of the Micro-financing industry, less than 18% of the world's poorest households have access to financial services (Grameen Foundation USA) (Chowdhry, 2006.p.3).

It is very sad to note that despite the large number of microfinance institutions, poverty still persists and is getting worse in many parts of the world as millions live on less than a dollar a day and the Millennium Development Goal of reducing poverty by half by the year 2015 seems to be too optimistic in this context.

One of the most often-cited reasons for the alleged failure of micro financing institutions is the endemic corruption and malpractices that surround these institutions where most of projects hardly reach their intended recipients. However, according to Professor Mohammed Yunus, the founder and the Managing Director of the largest and most well known micro-financing institution Grameen Bank, the lack of sufficient social entrepreneurs is the biggest hurdle holding back this sector.

A completely new world can be created by making space for the social entrepreneurs and the social investors in the business world. This is a very important agenda for all of us. Eliminating poverty will become so much easier if social entrepreneurs can take up the challenge of ending poverty, and social investors can put their investment money into supporting the work of the social entrepreneurs (Yunus, 2003).

Whatever the reason may be, it is obvious that conventional micro-financing has not yet realized many of its objectives and there is no doubt that more resources are needed as well as better management practices.

It is also worth noting here that poor Muslims have not benefited much from conventional micro-financing as the religious hurdle has not been overcome. For this reason some commentators are suggesting that Islamic banks can fill this void as they are well placed to tackle the issue of financial exclusion among poor Muslims (Farook 2008.p.1).

2.9 SUMMARY.

This chapter has introduced the theory of financial exclusion with the objective of examining the available literature on the subject. The initial objective was to find an agreed definition for the term which was not an easy task.

Causes of financial exclusion were reviewed with a relatively detailed analysis of the underlying factors. Supply, demand and societal factors were found to be the major explanatory variables. The common characteristics of the excluded were similarly explored to identify the common denominators for the people particularly affected by this problem. Although there are some other shared traits, low income was noted as the most common factor bonding the excluded community.

The wider implications of financial exclusion were also briefly examined covering both the financial and the social consequences of this problem. Public interest in the subject expressed by various governments in both the developed and the developing world were briefly perused followed by the corrective measures adopted to tackle the problem of financial exclusion.

Chapter 3

EXTENT OF FINANCIAL EXCLUSION IN THE UK AND ITS IMPACT ON THE LESS AFFLUENT UK MUSLIM COMMUNITIES

3.0 INTRODUCTION

The UK Government's concern with financial exclusion is comparatively new. During the term of the present Labour Government, financial exclusion has become recognized as one of the major issues facing disadvantaged communities (Carbo et al, 2005.p.15).

The United Kingdom has one of the largest and most sophisticated financial services sectors in the world. On the retail banking front, the UK is dominated by five large banks, and four of these banks are originally British, namely Barclays, Royal Bank of Scotland, Lloyds TSB and HSBC which was an Hong Kong based bank, which following its take over of the Midland Bank moved its operational Headquarters to London.

These banks have been around for quite a while and some of them, such as Barclays Bank which has over 2000 branches and serves more than 10 million customers (Barclays website accessed July 2008) have been providing banking services for more than 300 years.

The majority of financial services are concentrated in the retail banking sector which provides all four core financial services. These include:

1. Deposit facilities
2. Loans and other financing services
3. Bill payment services and money transfers

4. Foreign exchange facilities.

The UK financial services sector has done well in swiftly responding to customer demands, in adjusting to the innovations in new technologies and in meeting the requirements of small businesses.

All of these challenges have been reasonably responded to by providing well-diversified and wide-ranging financial products to meet the evolving human and market needs. For instance, the UK banking industry has undergone huge reforms and made some serious changes during the last decade, both in terms of product range and service delivery.

A good example of how quickly the UK retail banking sector has adapted to changes in technological advancement is the fact that previously the vast majority of customers would visit their local branch to access money or request advice on products and services, but today many customers manage their funds online and the banks have had to set up a suitable safe and fast infrastructure to enable customers manage their money 24 hours a day from locations across the world.

3.1: FINANCIAL EXCLUSION IN THE UK.

The term financial exclusion has gained momentum in the UK since the late 1990s and it has attracted huge public interest. Many politicians, academics and some interest groups have paid special attention to the subject. This could be attributed to the Labour government's determination to make social inclusion a political priority and the close link between financial exclusion and social deprivation. It could also be due to the gravity of the problem as some commentators suggest. It is reported that in the UK, between five and eight million are to a some degree financially excluded and if the widespread

financial under-provision is taken into account, half the population would come into the equation (McAteer, 2007.p.38).

As we learned in the previous chapter, finding a simple definition for the term still remains a challenge and one of the shortest and the most comprehensive definitions is as follows: "The inability to access necessary financial services in an appropriate form" (Carbo et al, 2005.p.5).

Although the UK is at the forefront of the fight against the problem of financial exclusion in the developed world, the extent and effect of the problem in the UK is still wider and deeper than originally thought, as a comprehensive survey conducted by the Financial Services Authority in 2000 confirmed (Sinclair, 2001). However, the causes of financial exclusion in the UK are not very different from those already discussed in the previous chapter. Again, as I noted earlier, there is no single factor that can be solely blamed for financial exclusion. Financially-excluded groups who are most affected in the UK include those on low incomes, loan parents and the long-term unemployed.

Another factor frequently mentioned as a major causes of financial exclusion is the increased deregulation of the UK financial services industry and the resultant stiff competition which has increased the available product range and has consequently led to more financial inclusion for the affluent, but has definitely pushed those on low incomes further from accessing financial services.

Technological advancement and relaxation in banking regulations have likewise brought some good results to the banking community, but this did not happen without casualties. A prime example of this is what happened in the 1980's when the traditional distinction between banks and building societies was removed by the re-regulation of financial services (Kempson et al, 2004.p.6). The end result was that many building societies

moved into retail banking, mainly through takeovers and mergers. These included the Halifax, which merged with the Bank of Scotland, and Abbey National, which merged with Alliance and Leicester (Kempson et al, 2004, p.7). The larger organizations created in this manner tend to be global players and cater only for the more affluent, ignoring the poor local individual's banking needs and thus exacerbating the financial exclusion dilemma with severe consequences for the excluded.

Some commentators also argue that although certain services have been enhanced by technological advancement and the level of accessibility substantially increased for the affluent majority, research evidence shows that the needs of some have not yet been satisfied, despite all the intense efforts and the significant progress made in this endeavour. Research conducted on this subject suggests that a reasonably significant proportion of the population is not able to access even basic financial products such as bank accounts (Kempson et al, 2004; Collard et al, 2001; European Commission report on financial services provision and prevention of financial exclusion, 2008)

The consequence of the inaccessibility of this minority means they have to pay more for the same financial transactions, find it harder to plan and manage their financial affairs and are more vulnerable to financial distress and getting into too much debt.

According to many commentators on the subject of financial exclusion in the UK a major proportion of the problem could be linked to religiosity (Knight 2006). This fact is gaining strong recognition in the UK and that is the reason why some members of the highest ranks of the UK government are paying special attention to it. These include the current Prime Minister and former Chancellor, Mr Gordon Brown, who called for the UK to become the centre of Islamic finance and has subsequently reformed the UK tax system to make *Shari'a* compliance easier. (BBC News 14th June, 2007)

The matter is also being seriously addressed by the Financial Services Authority which is the regulating body of entire financial services industry in the UK.

In his speech at the London Chamber of Commerce & Industry on 27th June 2005, Callum McCarthy, Chairman of the Financial Services Authority stated that his organisations is concerned about the financial exclusion of those are financially excluded due to their faith. Mr McCarthy informed the audience that his organisation has not reserved any effort in the process of authorizing “the first purely Islamic bank in Europe”, the Islamic Bank of Britain which would offer Shari’a compliant financial products to the UK Muslim population. In his speech, Mr McCarthy congratulated the Chief Executive of the Bank and said that he wished the bank and its customers well. He also stated that his organisation will continue to work with all the providers of Shari’a compliant finance in the UK to ensure that the consumers are provided with the right information about these financial products to make informed financial decisions.

It was obvious from this speech that there was a general belief across the board that UK Muslims were financially excluded prior to the introduction of *Shari’a*-compliant financial products and the introduction of such products would substantially reduce their financial exclusion.

A number of *Shari’a*-compliant financial products have been on offer in the UK since early1999 such as Islamic mortgages. It is therefore, the main objective of this dissertation to find out how much the availability of Islamic finance in the UK has contributed to the expectation of Mr Callum, and his peers in reducing financial exclusion.

3.2: WHO IS FINANCIALLY EXCLUDED IN THE UK?

The UK is one of the biggest economies in the world and London is a world class financial centre, yet there are many people who are totally excluded from the financial services industry. The level of exclusion varies among the excluded, ranging from those who do not even have a basic bank account to those who would like to maximize their utilization of the financial services industry, but cannot do so due to numerous inter-related factors, such as their unwillingness to act against the teachings of their faith. The following extract explains the extent of the problem.

Once the preserve of the rich, financial services are now a mass market. Access, however, is far from equal and around 1.5 million (7%) households in Britain lack any financial products at all. A further 4.4 million (20%) are on the margins of financial services and usually have little more than a bank account. Between a quarter and a third of people have no savings, lack home contents insurance or do not have a private pension (Kempson and Whyley, 1999a in FSA report, 2000).

Although the recognition of financial exclusion is a fairly new phenomenon in the UK, there is a reasonable, but limited amount of literature on the subject of financial exclusion in Britain and most authors unanimously agree that the financially excluded are normally the people at the bottom of the wealth ladder. As in the rest of the world, the most frequently-mentioned financially excluded groups in the UK include those living on low incomes, people living in run-down and disadvantaged areas, people with an unstable work history, young people, single parents and some specific ethnic minority communities, such as the Muslim community, whose faith may deter them from accessing certain financial services. Traditionally many Muslims in the UK have shunned mainstream conventional financial services and avoided dealing with banks as their

products did not comply with *Shari'a* law (BBC News, 14th June, 2006). Consequently, it is evident from the available literature that a large segment of UK population, particularly the Muslim community, is financially excluded due to their religious beliefs, but it seems that the extent of this type of financial exclusion has never been studied separately. However, the existence of the problem is well documented as almost all the studies conducted on financial exclusion found that religiosity is one of the major reasons why certain social groups choose to stay away from accessing the mainstream financial services (Collard et al, 2001; Sinclair, 2001; Kempson et al, 2004).

Although I was unable to locate specific studies aimed at determining the extent of the financial exclusion of ethnic minorities in the UK, particularly Muslims, some studies suggest that there certain minority groups such Muslims may suffer from additional element of self- exclusion due their faith. For instance, Muslims who strictly observe the teachings of their religion as far as the prohibition of interest is concerned may exclude themselves from conventional finance. However, experts on the subject are unclear about “the extent to which practices are entirely voluntary or reflect the unsuitability of existing mainstream financial services remains unclear” (Sinclair, 2001.p.34).

As in many other parts of the world, the financially excluded in the UK are not confined to a particular group or class, but are found across the board. According to (Sinclair, 2001), the groups that are most likely affected by financial exclusion include “the long-term unemployed, elderly people, the long-term sick, female single parents and some ethnic minority groups such as Pakistanis and Bangladeshis, who may make limited use of financial products because of language barriers and religious beliefs” (Sinclair, 2001.p36).

The report further explains that there are no clear-cut boundaries between these groups and an overlap is highly expected with the common denominator that unifies them all being 'low income' which very much defines the less affluent UK Muslims. The report specifically singles out households with an income of below £150 a week and lone parents in particular to be the most likely ones to be financially excluded. As I noted in Chapter Two and the earlier parts of this chapter, this definition fits the less affluent UK Muslim communities, in particular the Somali community, very well. However, public information about these communities is very scarce and scattered due to the many problems that have already highlighted in previous chapters. Hence, it is obvious that the less affluent UK Muslim communities are at the top of the list of those classified as 'financially excluded'.

3.3 LESS AFFLUENT UK MUSLIMS AS ONE OF MOST VULNERABLE GROUPS AFFECTED BY FINANCIAL EXCLUSION.

According to many historical accounts Britain has had some contact with the Muslim World since the 8th century. For instance, the Anglo-Saxon King- Offa of Mercia (756-796 CE) made Mercian coins, inscribed in Arabic script with Quranic verses and the fundamentals of the Islamic faith, which were later found in Kent by archaeologists. It has also been reported that there has been historical friendship between Britain and the Muslim world that Queen Elizabeth1, for example, asked the Ottoman Sultan Murad for naval assistance (www.salaam.co.uk, 2008) against the Spanish Armada.

Some commentators mention that a "sect of Mohametens" was found in London in the 15th century and the first Englishman to become Muslim was John Nelson who converted at some point in the 16th century. However, the first substantial number of Muslim immigrants is recorded to be in the late18th and the early 19th century and a further influx

of Muslim immigrants to Britain was after the opening of the Suez Canal in 1869 (Report published by the Muslim Council of Britain, 2002).

Today, Muslims have a real presence in the UK and are very visible in many spheres of British society. There are many Muslim professionals, academicians and prominent political figures, including some members of both the House of Commons and the House of Lords. Muslims contribute more than £31 billion each year to the British economy (Smith, 2008). Various estimates put the number of Muslims to be around 1.8m (3-4%) of the UK population. However, the main objective of this dissertation is to study how well the UK financial system, including *Shari'a*-compliant finance, caters for the financial services needs of the less affluent UK Muslim communities who are reported to represent a significant proportion of the overall UK population and the extent of their financial exclusion. However, the level of financial exclusion among less affluent UK Muslim communities varies. For instance, according to Cole and Robinson (2003)

According to various historical sources, Somalis have been in the UK since early 19th century before the First World and it is reported that some Somalis fought in the War alongside the British Army and since then, Somalis have been present in the UK. In his MA thesis, Mr Abdul Derie, a Somali researcher studying the educational achievement of UK Somali children tells us a poignant story about the first Muslim woman who was buried in Bradford in September 1904. Mr Deire refers to an article from the Guardian newspaper in which it was reported that historians researching the history of Bradford recently found the body of a Somali woman named as Halimo Abdi Batel who was buried there in 1904 after suffering from Tuberculosis. According to Christine Hopper, a museum officer at Cartwright Hall, it is believed that Halimo was the first Muslim buried in the city's cemetery which clearly explains the length of the Somali presence in the UK. However, The biggest number of Somali arrivals to the UK started in the late 1980s when

the political stability of Somalia started became unsteady and some anti-governmental movements such as SSDF, SNM and USC were gathering momentum, which led to the fall of the military regime led by Mohamed Siyad Barre in 1991. From that date onwards, the number of Somalis has steadily increased with some estimates putting their number at about 250,000.

According to Collard, et al (2001) one of the most serious and obvious symptoms of social exclusion facing the Somali community in the UK is financial exclusion.

Their report concurred that the Somalis who took part in their study were faced with multiple barriers to accessing financial products which put them in a very difficult and distinct position as far as financial inclusion was concerned. For instance, the report suggested that the Somalis interviewed were marginalized and the suggested solutions did not meet their needs as they raised the question of *Shari'a* acceptability of the conventional financial products offered by some conventional UK banks to tackle the issue of financial exclusion. Hence it was obvious from this study that the Somali community in the UK, as one the most financially-excluded less affluent UK Muslim communities, expressed the need for an alternative solution to the conventional finance-based suggestions.

Similarly a large number of other less affluent UK Muslim communities such as the Bangladeshis and the Pakistanis also suffer from extreme financial exclusion as the following extract suggests.

Those classifying themselves as Pakistani are four times more likely to be without a bank account than those who are white, Bangladeshis three times more likely, and Indians twice as likely. The national average proportion of households without a bank or building society account is 9%, compared with 27% among Bangladeshi and Pakistani households. There is some

evidence that this lack of use extends to other financial services (Sinclair, 2001.p.23).

As I stated earlier, and will explain below, financial exclusion breeds poverty and social deprivation (Carbo et al, 2005; Sinclair, 2001; Kempson et al, 2004).

According to a recent survey reported by the Reuters news agency in London, it was found that “Ethnic minorities are twice as likely to be living in poverty as white Britons, with Bangladeshis among the poorest”. It is worth mentioning here that less affluent UK Muslim communities represent a significant proportion of the UK’s ethnic minority groups. A report commissioned by the Rowntree Foundation shows and authored by Lucinda Platt of Middlesex University stated that “ Bangladeshis form the bulk of the ethnic poor, with 65 percent living below the poverty line, followed by Pakistanis (55 percent), Black Africans (45 percent), Indians and Black Caribbeans (both 30 percent)”.

According to the 2001 Census, there are 283,063 Bangladeshis in the UK which represents 0.5% of the total population. It is reported that the Bangladeshis in the UK are concentrated in inner London boroughs, especially in Tower Hamlets and, like other less affluent UK Muslims, suffer from acute socio-economic problems.

The history of Bangladeshis in the UK dated back to 1971 when a large number of Bangladeshis migrated to the UK due to the political and economic instability that followed their country’s independence and since then their number has steadily increased. Unlike the Somalis, the first Bangladeshi arrivals settled in the UK. Consequently, half of the Bangladeshis living in the UK have been born and bred here and there is a significant number of second-generation professionals among the Bangladeshi community.

According to the available literature on the Pakistani community in the UK, the largest number of Pakistanis came to UK in the 1950s. These first arrivals were economic

migrants with the objective of earning some money and returning home; however instead of the men going back, they were joined by their families. Therefore the number of Pakistanis in the UK has increased since the 1960s and 1970s when large families started to settle in the UK.

Unlike many other ethnic minorities, Pakistanis in the UK are not concentrated in London, but are found in large UK cities in the likes of Humberside and Yorkshire, West Midlands and the North West (www.mrs.org.uk, accessed on 17th March 2008)

The number of Pakistanis in the UK is estimated at 747,285 according to the 2001 Census and is thought to be the second largest ethnic minority group behind Indians, accounting for 1.3% of UK population. However, the respondents who were classified as Arabs and others were the smallest in the sample. However, there are about 250,000 Somalis in the UK as the BBC Community affairs correspondent reported on 30th May 2006(<http://news.bbc.co.uk>, accessed on 27th July 2008)

It is strange that the Somali community which is one of the poorest and the most disadvantaged Muslim communities in the UK is not always mentioned specifically in these reports. Paradoxically, other less affluent Muslim communities such as the Bangladeshis and Pakistanis, who are far more settled and financially better off than the Somalis, are always singled out in these reports even though, they themselves could at times be concealed under various names such as Asian, Muslim or ethnic minority.

It seems that the reason for this lies with the very little public knowledge that exists about Somalis in the UK. Also, in most cases their problems are not addressed specifically and are therefore obscured under vague names, such as African, Black, and Muslim etc. It is sad though that the plight of communities like the Somalis does not get the attention it deserves due to the lack of public knowledge about this particular community which, as I

stated earlier, has been in the UK since 1904. The description given by the author of the ICAR report sums it up by saying "The received wisdom is that material on Somalis in the UK matches their public profile - we know very little."(Harris, 2004.p.10)

Overall, even if these surveys fail to spell out the plight of communities like the Somalis specifically, it is obvious from the above extract that less affluent UK Muslim communities are at the bottom of the UK wealth ladder due their acute faith-related financial exclusion.

Ironically, it is well documented that less affluent UK Muslim communities represent some of the poorest ethnic minority communities in Britain, despite the high number of qualified people and their extreme inclination towards entrepreneurship. For instance, there is a considerable amount of literature suggesting that Somalis are extremely good at business and the evidence is easily visible in the UK. According to a recent survey carried out by the Somali Business Association, there are thousands of Somali-owned small businesses in the UK. Despite being financially excluded, disadvantaged newcomers to the UK, they have still managed, against all the odds, to establish their own businesses.

It is not only the Somalis who are good at business, but the Pakistanis and the Bangladeshis are reported to be very entrepreneurial too. For example, the Guardian reported on 21st June 2002 that there are 8,500 Indian restaurants in London 7,200 of which are owned by Bangladeshis. Catering is one of the sectors dominated by the Asian Muslim community, especially the Pakistanis and the Bangladeshis. It is reported that there are 500 Asian caterers in Birmingham, employing nearly 4,000 workers, and the majority of the owners of those businesses are Bangladeshis (Choudry and Drake, 2009). Pakistanis are particularly well known for their entrepreneurial spirit, as according to a survey conducted in 2002 it was found that 22% of all Pakistanis in the UK were self-

employed and one in six men was in a driving related occupation such as taxi driving and chauffeuring (www.mrs.org.uk).

It is unfortunate to note that much of the entrepreneurial talents of the less affluent UK Muslims are wasted due to the absence of appropriate financial products and it seems that the majority of *Shari'a*-compliant finance providers in the UK concentrate on investment and mortgages while the immediate financial services needs of the less affluent UK Muslims are business investment related capital such as business start-up and project finance, *Hawala*(money transfer), *Shari'a*-compliant small savings schemes, *Shari'a* –compliant education financing schemes as many Muslim undergraduates and graduates would prefer to finance their education in a *Shari'a* compliant manner and *Shari'a* –compliant financial planning.

As I have discussed before, there are many entrepreneurs in these communities, but the lack of capital is greatly hindering their entrepreneurial achievement and that is the reason why the majority of businesses operated by the less affluent UK Muslims are very small and often cease in a short period of time due to stiff competition from stronger competitors as the necessary capital for expansion is not available. According to the research findings, business financing is the most urgent need for the less affluent UK Muslims, but it seems the providers of *Shari'a* compliant finance providers have not yet realised this fact and are still concentrating on investment management and mortgages as these are the two most popular products for all Islamic financial institutions worldwide.

This mismatch might have resulted from lack of not carrying out a thorough research of what the financial services needs of the less affluent UK Muslims are and in my opinion, such research is warranted to investigate the most immediate financial services needs of the less affluent UK Muslims. The need for research on market research and product development will be tackled in the recommendation section of the thesis

3.4: PUBLIC INTEREST IN FINANCIAL EXCLUSIONS AS A SUB-SET OF THE WIDER PROBLEM OF SOCIAL DEPRIVATION IN THE UK.

Before discussing the public interest in financial exclusion in the UK, it is worth asking whether financial exclusion is a public policy issue.

The providers of financial products tend to play the matter down and claim that financial exclusion will only be a public policy issue if there is evidence that people have been denied access to financial services for which they have applied. They argue that it is the personal choice of the excluded to opt out from accessing the financial products on offer; therefore it should be treated as such and not as a public issue. According to a report compiled by Sinclair (2001) for the Centre for Research into Socially Inclusive Services (CRSIS), some banks have argued that the financially excluded are intentionally excluding themselves from the financial services sector and it is wrong to blame the banks for this as they are not culpable for the financial exclusion of those who have decided not to access the available financial services.

It may be true that many people are not accessing the financial products on offer, but one should ask why they are not doing so. Surely, everybody likes a decent life and it is human nature to seek whatever pleasure you can afford.

As I have explained in previous sections, accessing basic financial services is no longer a luxury but a necessity and the argument that the financially excluded have simply decided not to engage in the products on offer is a flawed one and distorts the facts. Whenever someone is not accessing the existing financial products there are reasons for it. Some of the most common reasons are those I have already covered in the previous chapter and mainly incorporate the demand factors which include the following:

1. Lack of income which will affect the demand side of the equation as people with low incomes would not normally demand many banking services as they lack the reasons to do so.

2. Lack of proper information such as biased marketing campaigns which again limits their knowledge of what products best suit their needs and thus affects their demand for financial products

3. Lack of education, especially financial literacy. This would again mean people would not demand and access the financial products on offer as they do not understand the basics of using such products.

4. Lack of appropriate products such as those which would not conflict with one's faith/belief. This is a supply factor as the absence of suitable financial products would mean people have nothing to demand or access as they see the available products unfit for their purpose.

One could argue that all the above problems are beyond the control of the individual and the end result of financial exclusion is not confined to the excluded alone, but has far more detrimental social and economic consequences (European Commission report, 2008) It is therefore logical to treat financial exclusion as a public policy issue.

In the next section, I will be visiting some of the literature available on this topic and its underlying reasons.

As I have previously discussed, financial exclusion is firmly linked to social deprivation which is a high priority policy for the UK Labour Government. Immediately after coming to power, the current UK Government made it clear that the issue of social exclusion and its related symptoms should be tackled at both local and national levels. This resulted in the establishment of 18 policy action teams (PATs).

The Social Exclusion Unit which is the body created by the British Government to address this problem is confined to England, although similar policies are replicated

elsewhere in Wales, Scotland and Northern Ireland. The policies set up by the policy action teams are carried out through the Neighbourhood Renewal initiatives which have been operating across the UK over the last few years.

Parallel initiatives emerged in the rest of the UK as the National Assembly for Wales issued national policies aiming for inclusion in Wales and the Scottish Social inclusion strategy programme established five social inclusion actions teams similar to those in operation in England. In Northern Ireland too, a new initiative targeting social need was created to tackle social deprivation among the most vulnerable individuals and groups.

3.5 POLICY RESPONSE TO FINANCIAL EXCLUSION IN THE UK.

There is an overwhelming interest in the subject of financial exclusion in the UK today to the extent that during Blair's government some commentators regarded it as the new "buzzword" (Sinclair, 2001.p.45) and the approach adopted by the current Labour Government as "a facilitator and a mediator" (Carbo, Gardener and Molyneux, 2005, p.45). Other corroborating evidence for this assertion is the number of high-ranking politicians explicitly and publicly announcing the Government's seriousness in tackling this problem at the highest level. One such high-ranking politician is the Economic Secretary to the Treasury who has declared that tackling financial exclusion is at the heart of the government's agenda on social exclusion. She further insisted that "Everyone should be able to access financial services and the benefits this brings".

It is not only in England that the problem is being tackled at policy level, but even within the Scottish Executive. The Minister responsible for policies on social justice and social

exclusion stated: 'The fight against financial exclusion must be won if we are to deliver social justice in Scotland' and as a response to this call six "closing-the-opportunity-gap" objectives were announced in 2004 followed by a £1.1 million Credit Union Capacity Fund" (Mitton, 2008).

Since May 1997 when the current British Government came to power, there has been an increasing emphasis on tackling financial exclusion and this is reflected in the large number of policies that have been adopted in the fight against poverty and the various forms of social deprivation, including financial exclusion. For instance, in the 2004 Budget Report, the British Government stated that it would work with both the financial services and the voluntary sectors to tackle financial exclusion at all levels and achieve a "dramatic reduction" in the number of financially excluded people (Kempson et al, 2004.p.41).

The British Government's strategy of tackling financial exclusion was set out in detail in its policy document entitled 'Financial Inclusion: The way forward (HM Treasury: 2007d) and was further elaborated on in another document entitled 'Financial Inclusion: An Action Plan for 2008-11(HM Treasury: 2007c) which spells out the right each person has to access financial services to achieve a better quality of life, and declared that it is committed to achieving that goal stating that: "The current level of intensity of action to promote financial inclusion will be maintained" (Mitton, 2009.p.14).

As the 'Sinclair Report' suggests, financial exclusion itself was one of the first triggers of these policies. One of the initial concerns of the SEU was the exclusion of sections of the population from access to financial services such as banks. Two separate Policy Action Teams (PATs) were set up within the Treasury in 1998 to report on different aspects of financial exclusion. One of them was charged with examining access to personal

financial services such as bank accounts, credit and insurance (PAT 18), and the other to investigate the financial needs of small firms (PAT 3).

Growing public interest has led to many more research projects, prompted by the preference in British policy circles for “research-based evidence” as the Government favours the outcomes of research and examples of best practice as opposed to values or ideology. The new motto in this respect is “what counts is what works” (Sinclair, 2001.p.46)

This shift in policy prompted many research initiatives to be undertaken on the subject of financial exclusion by various organizations and individuals from across the board. A good example of this is that, upon its establishment in December 1997, the Social Exclusion Unit had to develop research-based policy initiatives. The bulk of the existing research on financial exclusion is specific to England and Wales; nevertheless there has also been some research, to a lesser extent, relating to Scotland where the problem of financial exclusion is said to be chronic and far reaching. According to some commentators, the extent of financial exclusion among the low income people in Scotland deserve special consideration and the distinctive measures adopted by the Scottish Executive in responding to this reflects the same.

There are areas that are particularly affected in Scotland such as Wester Hailes, a large estate on the western edge of Edinburgh. According to the Scottish Executive, “Particular attention will be given to the situation in Wester Hailes, partly because it serves as an illustration of significant area-specific differences, but also partly because community led organizations there have been energetic in documenting the scale and nature of local financial exclusion and in developing imaginative responses to this” (Sinclair, 2001.p.46)

One of the indicators that it is not just talk, but a serious pledge from the government is the amount of funding allocated to tackle the issue of financial inclusion. In December 2004, the Government published the first financial inclusion strategy, "Promoting financial inclusion" and it announced the creation of a dedicated fund called the "Financial Inclusion Fund" with a budget of £120 million to be spent between 2004 and 2007. It is reported that this fund is doing extremely well and is helping a lot of people who were initially excluded.

The policy objectives of this fund are:

1. To establish an independent Financial Inclusion Task Force to advise government and monitor progress
2. To offer prioritized access to banking
3. To provide affordable credit and free face-to-face money advice

The fund was apportioned to various governmental agencies for administration so that it would have maximum impact and meet its objectives. For instance, the DTI is providing £4.75 million to recruit and train over 500 new money advisers. According to a report published on the FSA website, these new advisers have already provided crucial assistance to over 18,000 clients struggling with debt. Also, the DWP is running a £36 million Growth Fund to enable credit unions and community development finance institutions to give affordable loans to financially-excluded people without access to mainstream credit and, according to the same website, over 100 of these lenders are now receiving funding, and over 15,000 loans have been made so far.

The speech by Callum McCarthy, Chairman of the Financial Services Authority at the London Chamber of Commerce & Industry on June 27 2005 is another example of the importance attached to this subject in the UK across the board.

It is not only British politicians who are showing concern over this issue, but other respectable public institutions are also very keen to do their, bit even though they may not have a legal responsibility to do so. The Financial Services Authority is a prime example of such an organization as it has no statutory duty to deal with financial exclusion, yet it is taking it seriously and Mr McCarthy's speech which is mentioned above is a simple testimony of this.

In the said speech, Mr McCarthy established the close connection between financial inclusion and the wider, but the related question of financial capability. He explained that financial capability refers to the individual's ability to make informed decisions about his or her financial affairs which become crucial in today's world as people are asked to take responsibility for many of the financial decisions that traditionally were borne by the Government or the employer such as pensions, healthcare and children's education. Mr McCarthy admitted that making informed financial decision requires certain level of financial literacy which he said was currently missing as too many people who are expected to make such informed decisions are ill-equipped. He further stated that it is worrying that many UK adults do not understand basic financial information and if asked to choose between £30 and 10% of £350 they choose the lower number. According Mr McCarthy, this is an evidence of the poor financial literacy level among UK adult population which in his opinion needs to be tackled by all the agencies mandated to deal with this problem as the following paragraphs elaborate.

Mr McCarthy made very clear that his organization's (FSA) remit is simply that of a financial services regulator and not to produce a "literate and numerate society". He went on to spell out that this responsibility lies with the government and with the education system. The Chairman of the Financial Services Authority (FSA) also compared the budget made available to them by the government to that allocated to primary and secondary education, which is far greater than their current annual budget which according to him stands at £260 million for all their regulatory and other responsibilities. What this implies is that they are very limited in what they can do with their meagre resources. However, Mr McCarthy announced at the conference that his organization has decided to devote a sizable amount of their budget to combat financial exclusion.

He said that they were planning to double the portion of their budget that will go to promoting financial capacity. Although he admitted that this was negligible given the scale of the problem, it was just a gesture on their part of how serious they are about tackling financial exclusion and its related social ills such as financial incapacity.

He insisted that the government and the education system should do more as this responsibility lies within their remit and they have larger resources. He continued to detail the plans his organization was putting together to do their bit in tackling this problem. Mr McCarthy told the audience that his organisation has been tackling this problem for more than a year by bringing together representative of the Government, employers, providers of financial services, commentators from the media and the voluntary sector under the leadership of the FSA's chief executive of the time, Mr John Tiner. The main aim of the FSA in this regard is to co-ordinate resources in order to facilitate the delivery financial capacity in the most practical and effective manner. For instance, some of the

recommendations made by this group include the introduction of financial literacy in the school curriculum, to identify and prepare generic responses to all financial capacity related issues and involve those involved in the delivery of financial services and products as they are a key to solving the problem in the long term.

Mr McCarthy's speech is a classic example of public concern and policy response to the problem of financial exclusion. An interesting aspect of his speech is the level of detailed information it contains, despite his clear disclaimer of responsibility for statutorily addressing this problem which he chose to call "an odd absence" as he feels the FSA should have been given the powers and the resources to fight this problem. His speech placed great emphasis on the issue of "lack of or low financial capability", which in his opinion is the major source of this problem, by pointing out the groups most vulnerable due to their low level of financial capability. Mr. McCarthy quoted some startling statistics showing the extent of financial exclusion in the UK. .

Let me speak in particular about those who are more directly excluded from financial services: those two million without a bank account; those three million who rely on expensive alternative credit facilities; those – typically in receipt of benefit, in socially rented accommodation, on low incomes, often single parents – who are outside mainstream financial services (McCarthy, 2005).

According to Mr McCarthy, the FSA chose to actively engage in the fight against financial exclusion and the measures adopted by the UK financial services regulator include:

1. Advising UK financial institutions to relax the documentation and identity requirements for opening an account for those who cannot provide all the required documents. The FSA suggested banks could accept one document instead of insisting on the production of two.

2. Mr McCarthy has also spent a considerable amount of time on the matter of faith-related financial exclusion; clearly stating that it is one of the obstacles to financial inclusion and that, in his opinion, the introduction of *Shari'a*-compliant financial products would go a long way to tackling this issue. However, as I have already explained in previous sections, it is the main objective of this thesis to find out if the reality on the ground corresponds to the above-mentioned expectations as far as financial inclusion is concerned.

3. Consolidating, encouraging and strengthening credit unions as they could fill the gap vacated by traditional and profit-oriented banks. The FSA is therefore in favour of the development of more credit unions and the strengthening of existing ones, but recognizes the importance of ensuring that financial institutions are run by experienced and capable individuals. Due to the proactive role assumed by the FSA, the assets of the UK credit unions have almost doubled since these measures were adopted and their assets were more than £427 million with 473,000 members in 2007 according to the speech delivered by Mr McCarthy.

4. Supporting and encouraging various pilot schemes to help the excluded. Some of the initiatives supported by the FSA in this regard include "Helping Young Adults Become Financially Capable", the work of a group chaired by Trevor Phillips, "Young Scot" specifically aimed at young people threatened with financial exclusion; the Barefoot Project of Citizens Advice Bureaux nationwide; or the work being done at Fairbridge based in Bristol. All these initiatives are targeting young people as one of the groups identified as vulnerable to financial exclusion.

5. Organizing toddler and family groups to give them financial advice and help understand the basics of financial matters, which is the specific task of the second work stream appointed by the Financial Services Authority.

6. Establishing the Financial Innovation Fund worth £100,000 with the aim of supporting voluntary organizations working on innovative ways of improving financial capability.

7. Persuading and convincing financial institutions to contribute financially to this objective. Institutions that have come on board include the Royal Bank of Scotland, Lloyds TSB and Barclays Bank as part of their corporate responsibility programme.

Apart from the work that the FSA is doing on this front, there are other governmental initiatives aimed at tackling financial exclusion in the UK as part of the UK Government's overall policy response to this issue. A good example of such work is the £3 million fund launched by the Department for Work and Pensions to fund non-profit organizations involved in helping the excluded access more financial services such as pensions and retirement plans. However, some commentators argue that any policy aimed at tackling financial exclusion should be integrated into the overall policy package as piecemeal solutions would not achieve the intended results (Vass, 2007.p.3)

According to Mr McCarthy the voluntary sector is the key to tackling financial exclusion as they are the gatekeepers and have first hand experience of dealing with people suffering from financial exclusion. Thus, supporting them with this crucial task is one of the practical ways of combating financial exclusion in the UK. He admitted though that all of this is the easy part and although it may contribute to the overall objective, practically tackling financial exclusion requires a lot more resources and coordinated effort across the board which would necessitate the full involvement of the Government and the industry due to the gravity of the problem and the scale of the task at hand.

Policy responses to financial exclusion are not confined to those adopted by the Financial Services Authority and some governmental departments, the industry is also realizing that they should assume some responsibility in this regard.

A good indicator of how the UK financial services industry is responding to this call to take part in the task of tackling financial exclusion is the fact that almost all UK banks have what is called 'corporate social responsibility'.

This is again a positive and significant step showing that the banking community is finally accepting responsibility and taking constructive measures in reducing financial exclusion.

Barclays Bank has published the following information on its website:

Barclays has a corporate social responsibility programme which particularly focuses on financial inclusion policies including funding a financial literacy programme (www.barclays.com, accessed 18 July, 2008).

3.6 SUMMARY:

One of the main objectives of this research has been to understand the extent of the problem of financial exclusion in the UK and its impact on its victims.

Particular attention is paid to faith or religion-related financial exclusion which has a detrimental effect on a large segment of British society, UK Muslims, who are estimated to be about 1.8 million people.

The aim of this chapter is to examine the scale of the problem of financial exclusion in the UK. Although financial exclusion has recently gained some recognition in the UK, it is still in its infancy and the literature is relatively limited.

I have divided this chapter into five major sections to facilitate the logical flow of the text. In the first part, I attempted to find a consensus definition for the term 'financial exclusion', but this was not an easy task as there is no single definition for the term due to its complex and vague interpretations.

The second section of the chapter was devoted to the causes of financial exclusion. Again singling out one particular reason that could be solely blamed for causing financial exclusion proved to be an impossible task as this is a problem that is caused by many factors which are not mutually exclusive. The most commonly mentioned roots of this problem include: lack of income caused by unemployment, ethnicity, financial illiteracy, inappropriate financial products and exclusion due to faith or religion. In part three, I looked at the impact financial exclusion has on the excluded and it is clear that this problem has serious, far-reaching detrimental consequences for the individual and the community as a whole.

In the final section, I visited some of the literature available on public interest in this issue and there it became obvious that this matter is being addressed at the highest level of policy-making in the UK. Interestingly, it was referred to by some commentators at the time as the new "buzz word" for Blair's labour government. As I discussed in the said section, many high ranking politicians, academics and civil servants are treating it with gravity.

This is a positive sign and a step in the right direction in finding a comprehensive, long-lasting solution for this serious problem. However, the remedial solutions for financial exclusion have been postponed until the final chapter of this thesis as part of the Conclusions and Recommendations.

Chapter 4

ROLE OF ISLAMIC FINANCE IN TACKLING FINANCIAL EXCLUSION AND THE UK EXPERIENCE

4.1 INTRODUCTION

Whoever relieves a believer of some of the stress of this world, Allah will relieve him of some of the distress of the Day of Resurrection. Whoever eases an insolvent's loan, Allah will make things easier for him in this world and in the Hereafter. Whoever conceals a Muslim's faults, Allah will conceal his faults in this world and in the Hereafter. Allah will help a person so long as he helps his brother (other human beings) (hadith, Muslim and Bukhari)

I have explained in earlier parts of this thesis that there are certain people who are financially excluded due to the strict prohibition of interest by Islam and that the only viable solution for this group of people is the provision of *Shari'a*-compliant financial products. The people in this category are usually individuals and social groups at the bottom of the financial services ladder, due to their poor economic conditions such as low income and perhaps financial illiteracy. Therefore they do not really understand the profit-oriented *Shari'a*-compliant financial products currently available in the UK. This implies that alternative provision is needed in order to tackle their financial exclusion. Therefore, before I discuss the various possible ways of helping this group, perhaps it is worth taking a brief look at the importance that Islam, a faith followed by nearly 25% of the world's population, attaches to the task of helping those members of the community who are the most disadvantaged in one form or another, including the financially excluded, as part of the overall Islamic objective of creating a just and inclusive society.

4.2 THE CONCEPT OF SOCIAL JUSTICE IN ISLAM

There are many *Qur'anic* verses and *ahadith* (sayings of the Prophet Mohammed, PBUH) commanding Muslims to help the poor and provide for the needy. I will briefly consider some of these verses and sayings in order to understand the importance of financial and social inclusion in Islam to attain the overall goal of *Shari'a* to provide social welfare and cohesion. *"I have only created Jinns and Men that they may serve me"* (Quran: 51:55). This verse suggests that the whole essence of the existence of Mankind is to serve the Lord by serving his creation, as the best way to serve God is to serve your fellow human beings according to the teachings of the Prophet. The following *Qur'anic* verse explains this further by establishing a close connection between worshipping the Lord and serving Mankind, starting with those closest to you, as charity should begin at home:

Serve God and join not any partners with Him and do good to parents, kinfolk, orphans, those in need, neighbours who are near, neighbours who are strangers, the companion at your side, the wayfarer and what your right hand possesses, for God loveth not the arrogant, the vainglorious. (Quran: 6:36)

Again, it is obvious from the above verse that the most important task for the believers after witnessing the oneness of God is to do good for their fellow human beings, which clearly shows the importance of social service and social inclusion in Islam. Also: *"Those who spend (freely) whether in prosperity or in adversity, who restrain anger and pardon (all) men, for God loves those who do good.* (Quran: 3:134) This is another *Qur'anic* verse emphasizing certain desirable characteristics of a good believer, such as generosity and self restraint and promoting the common good for the welfare of the wider community to attain social inclusion and harmony. The verse: *"And they feed, for love of*

God, the indigent, the orphan and the captives” (Quran: 76:8) signifies that providing for the destitute and those in desperate situations, like the ones mentioned in the verse, is one of the basic fundamentals of the Islamic faith and there is high expectation of the followers of this faith to be caring, selfless and philanthropic in their dealings with others.

Muslims are also commanded to feed their close relatives as the following Qur’anic verse suggests, *“Give your relatives and the needy and the traveller their rights”* (Quran:17: 25). Also, Those Muslims with greater resources are commanded by the Quran to pay more to help the poor and the needy in addition to their immediate and family members as follows: *“Do good with parents and the relatives and orphans and near neighbours and stranger neighbours, friends, travellers”* (Quran:4: 36).

The number of *Qur’anic* verses on the subject of promoting social justice and cohesion are countless, indicating that this subject is taken very seriously in Islam. Similarly, the teachings of the Prophet Mohammed (PBUH) reflect the great value that is attached to the noble act of donating some of your hard -earned wealth and time to those in great need. According to one *hadith* *“Those striving to help widows and the poor are like those striving in the way of Allah”* (Hadith: Imam Bukhari-Kitabul-Adab). Another hadith states that *“Muslims are like one body of one person; if the eye is sore, the whole body aches and if the head aches, the whole body aches.”* (Hadith: Sahih Muslim)

As the above sayings of the Prophet Mohammed (PBUH) suggest, Islam greatly encourages communal spirit over individualism and urges its followers to understand that removing the suffering of the needy is a highly commendable act as it leads to societal well- being and communal harmony.

There are many more sayings from the Prophet (PBUH) on the importance of combating financial exclusion and social deprivation by meeting the needs of the less well off.

However, due to the lack of available space here I will limit them to the above. It is also apparent from the above *Qur'anic* verses and sayings of the Prophet Mohammed (PBUH) that Islam shuns social deprivation and, as I have noted earlier in the chapter, financial exclusion is one of the biggest drivers of social deprivation which logically puts it on the same footing.

As a universal religion Islam does not go into the specifics of various topics, such as financial exclusion, and does not prescribe specific solutions, but rather takes a broader view of the subject of social harmony and justice that would be achieved if the fundamental teaching of the Quran and the traditions (*sunnah*) of the Prophet were observed.

There is general consensus among development professionals that poverty is one of the most obvious manifestations of financial exclusion and eradicating it is one of the main objectives of Islam and therefore, the following section is deliberately devoted to this.

4.2.1 Treatment of Poverty in Islam to Promote Social Inclusion

Fighting poverty is one of the core fundamentals of Islam, because in Islam poverty is equated to infidelity or disbelief in God (*Kufr*) which is considered the greatest sin. According to the Islamic faith, Allah never forgives infidelity, although according to Islamic jurists (*fuqaha*) he may forgive any other sin committed by an individual. This signifies its gravity as the following verse states “*Verily Allah forgives not that partners should be set up with Him in worship (kufr), but He forgives except that (anything else) to whom He wills*” (Quran: 3:48). One of the Prophet Mohammed’s (PBUH) regular prayers was “*Oh Lord! I seek Thy refuge from infidelity (kufr) and from poverty and destitution and seek thy refuge from paucity (qillah) and humiliation (dhillah)*” (Hadith, Abu Dawud).

The above narrations clearly tell us that fighting poverty and its related symptoms, such as financial exclusion and social deprivation, is crucial in Islam, and anyone who is in a position to fight it and does not do so is in fact committing a great sin as I have discussed earlier. This matter is treated so seriously in Islam because of the importance that is attached to it due to its far-reaching effect on individuals and on society as whole. The following *hadith* indicates how poverty endangers one's spiritual and intellectual freedom: *"Poverty is almost like disbelief in God (Hadith:-Al-Bayhaqi)*. This means the poor person's belief is under imminent threat as they cannot make independent decisions about their entire life including their faith, due to their absolute dependency on anyone who can meet their basic needs. Hence, Islam urges its followers to give to the poor and help the needy in order to minimize the impact of destitution on society, as the consequence of financial exclusion can be devastating.

Therefore, as the following Qur'anic verses suggest, philanthropic giving and altruistic behaviour is greatly encouraged in Islam in order to create a cohesive and socially inclusive society: *"And give them of the wealth of Allah which he has given you"* (Qur'an: 24:33). The verse suggests that the person's possessions are not absolutely his as s/he is holding this wealth temporarily and as a vicegerent for the ultimate owner (Allah) and it implies s/he should not withhold it from the needy.

Then give to the near of kin his due, and to the needy and the wayfarer: this is best for those who desire Allah's pleasure, and these it is who are successful (Quran: 30:38).

In Islam *zakah*(almsgiving) is mandatory on all Muslims depending on the level of their wealth, and a person is not considered to be a Muslim unless he or she complies with the five pillars of Islam, including the payment of *zakat*(almsgiving).

The fact that *zakat* (almsgiving) is one of the five Pillars of Islam is clear evidence of the importance that Islam attaches to the duty of providing for the needy members of society in order to combat financial exclusion and social deprivation. The objective is to redistribute wealth within the community as the following verse suggests, instead of it being in the hands of a few individuals: *“And those who hoard up gold and silver (wealth) and spend them not in the way of Allah, announce to them a painful torment”* (Qur’an: 9:33). The verse sends a severe warning to those who do not spread the wealth in their possession in order to combat financial exclusion and create a fair and just society.

Since the subject of this chapter is the role that Islamic finance should play in tackling financial exclusion and the consequential social deprivation, I will now briefly look at the role that Islamic finance can and should play in promoting the equitable distribution of wealth and social harmony as a tool for overcoming financial and social deprivation.

4.3 SOCIO-ECONOMIC OBJECTIVES OF ISLAMIC ECONOMICS

The literature of Islamic economics is rich in certain desirable socio-economic goals, such as social justice, equity, the alleviation of poverty and human well-being. The concept of social responsibility and working for the common good was central to most of the early writings on this subject and is one of the main features of Islamic economics and finance which, at least in theory, distinguishes it from its conventional counterpart.

Eradication of poverty, socio-economic justice and equitable distribution of income are among the primary goals of Islam and should be unyielding features of an Islamic economic system. (Chapra: 1985).

According to many commentators on the subject, the underpinning philosophical basis of the whole Islamic financial system is that of *al-adl* (social justice) and *al-ihsan*

(benevolence) which should be reflected in their operations, and the people running these institutions are supposed to be philanthropic and altruistic.

Unlike the person motivated by self-interest alone (*homo economicus*), the practicing Muslim has different motives (*homo islamicus*) and is expected, in theory at least, to be more socially aware than his or her counterpart as s/he supposedly prefers altruism and humanism to self-centeredness and egoism. The proponents of the above theory are of the opinion that *homo islamicus* individuals are driven by a certain philosophical notion which justifies their self-restraint and careful behaviour as the following excerpt suggests.

Other philosophical notions of human accountability before God, the role of man as a vicegerent on earth, and the ethical axioms of unity of God (*tawhid*), equilibrium (*al-adl wa'l-ihsan*), free will (*ikhtiyar*) and responsibility (*fard*) are further assumed to be the drivers which restrain self interested behaviour, motivate individuals to make careful use of limited resources, care for the environment and fulfil their social obligations (Ahmad, 1980: 178; Naqvi, 1981).

It is evident from the above that the spirit of the entire Islamic economics and financial system is based on the concept of 'social justice' by ensuring that wealth is fairly distributed among members of society to promote social and financial inclusion.

4.4 ROLE OF ISLAMIC FINANCE IN TACKLING FINANCIAL EXCLUSION

Islamic finance as the operational framework of Islamic economics has long been criticised for its apparent over-reliance on debt-based financial instruments, such as *murabah*⁹ and *ijara*(leasing), which portrays it as a consumer-debt industry where the

⁹ It means cost-plus financing where the payment of price(principal and profit) is deferred to a future date. Murabaha comes under the wider concept known as Bai Bithaman Ajil(BBA) in Islamic finance which is the generic term used for all financing that involves delivery of goods in advance and deferred payment. Musawama is another BBA financing mode acceptable under Shari'a.

end result does not contribute to the socio economic and developmental objectives of its founding fathers (Chapra, 1985; Asutay, 2008).

According to most of the commentators on this subject, the vision of the founding fathers of Islamic economics and finance was the creation of a more equitable and fairer society through the application of the equity-based modes of Islamic finance, especially *mudaraba*(trust financing) and *musharaka*(partnership) which encourage entrepreneurship, risk-sharing and better allocation of productive resources. Others argue that, given the widespread and epidemic poverty in most Islamic (OIC) countries, Islamic finance should have played a significant role in the social development of these countries by empowering the poor through socially-oriented projects.

Some commentators have even explicitly assigned the task of poverty alleviation through community development financing to Islamic banks and called on them to assume greater responsibility in the commendable task of fighting poverty Chapra (1984), Siddiqi (1983) and Hassan (2006) are among those who advocate that Islamic banks should take more responsibility in contributing to the social and economic development of the poor. However, others are of the opinion that Islamic banking, as it is practiced today, is mainly driven by profit maximization, as opposed to social development. This is manifested in their excessive use of the debt-based financing modes of Islamic finance such as *murabaha*(cost-plus financing) and *ijara*(leasing) as they are relatively less risky than the equity-based financing modes such as *mudaraba*(trust financing) and *musharaka*(partnership) which are encouraged by most of the sceptics of the current practice of this industry. Furthermore, the argument put forward by proponents of equity-based financing modes is that profit/loss sharing arrangements encourage entrepreneurship, and the fact that the profitability of the project is emphasized instead of the credit worthiness of the applicant, improves the chances of financing viable projects

proposed by some able, but not necessarily creditworthy, individuals. This would ultimately contribute to the social and economic development of the society.

Some critics of the current practices of Islamic banking and finance disapprove of the divergence between the theory and the practice of Islamic finance. They point out that theoretically the spirit of Islamic finance lies in the equity-financing modes such as *mudaraba*(trust financing) and *musharaka*(partnership), but the actual practice is dominated by debt-based modes of finance such as *murabaha*(cost-plus financing) and *ijara*(leasing). In addition, the industry has been criticized for putting greater emphasis on 'economic and financial efficiency' and, incredibly, investing in 'financial engineering' as opposed to being inspired by social goals and emphasizing "social engineering and striving for social efficiency" (Sairally, 2007). On the contrary, the advocates of the current practice defend it on the basis that the industry is still in its infancy and faces stiff competition from the centuries-old conventional financial system and currently proving its viability takes precedence over social objectives. However, it is a painful reality that, despite Islamic financial services having recently witnessed tremendous growth in terms of size and sophistication - some estimates put the assets managed by this industry at more than \$650 billion dollars with a forecasted annual growth of 15-20%, according to the World Bank's reports the majority of OIC member countries belong to the poorest or the least-developed countries of the world. This indicates the appalling social failure of the current practices of Islamic banking and finance. Consequently, the industry has faced some fierce criticism, calling for a pragmatic shift from the current practice characterized by mimicking conventional finance, coupled with heavy emphasis on *Shari'a* technicalities to ensure the *Shari'a*-compliance of transactions, regardless of their social consequences.

These critics advocate that current practice does not reflect the underlying socio-economic objectives of the entire system as it has done nothing to promote financial and social inclusions, which are the cornerstones of Islamic finance.

In the following section I will look at some of the proposals put forward by these critics followed by our brief analysis of them.

4.4.1 Need for Dramatic Change of Course to Bridge the Gap

It is apparent from previous discussions that Islamic finance has so far failed to achieve its desired socio-economic objectives, which is central to the whole system of Islamic economics and finance and seriously impeded the teachings of Islam as a Universal religion (Chapra, 1985; Asutay, 2008; Farook, 2008).

According to some of the leading academics in the field of Islamic economics and finance, rectifying the status quo is inevitable, although some of the suggested proposals are more pragmatic than others. Some of these commentators even go as far as suggesting that Islamic finance should be catering for the financial services needs of the poor. In order to meet that objective, they say the whole Islamic finance industry should be a sub-set of the existing micro-financing industry as they share the fundamental objective of promoting financial and social inclusion, despite the diverse and somehow contradicting means of achieving the same end result. Perhaps here it is a case of the end justifying the means with a positive connotation. However, it is worth briefly summarising the services of the conventional current micro-financing industry to understand the similarities and differences of the two above-mentioned sectors.

4.4.2 Similarities and Differences between Islamic Finance and Conventional Micro-Financing

As I mentioned previously, there are some commentators on the subject of Islamic economics and finance who are of the opinion that Islamic banks are in an ideal position to tackle financial exclusion among poor Muslims who are not accessing mainstream and conventional micro-finance due to the strict prohibition of interest (*riba*) in Islam.

These commentators argue that Islamic banks have the capital and manpower to tackle financial exclusion, but need to have the will to invest in community-empowering projects which may reduce their returns in the short term, but will surely increase their capital base as well as clientele in the long term.

Perhaps, it is the right moment to compare and contrast conventional micro-financing and Islamic finance to appreciate the convergences as well as the divergences of the two sectors.

It is widely reported that micro-financial institutions and Islamic finance share many common characteristics, in theory at least, including the following:

1. Both are enshrined with the developmental and social goals of fighting poverty
2. Both encourage financial inclusion by extending finance to those excluded from the mainstream financial sector
3. Both advocate innovative means of providing finance to the poor to combat financial exclusion
4. Both strive for ensuring fair access to capital and catering for the excluded and the under-served

5. Both recognize that financial exclusion is a vicious cycle that could be tackled through entrepreneurship and risk sharing
6. Both promote equitable economic development by empowering the poor
7. Both appreciate the potential of the excluded as being disadvantaged does not necessarily suggest lack of ability or talent to break this vicious cycle.

Based on their shared objectives of promoting the common good, micro-financing institutions and Islamic financial institutions can work together to achieve this noble objective as advocated by Rehman, former Global Head of Strategy at HSBC Amanah, in his keynote speech at Harvard Law School Legal Studies Programme, Financing the Poor-Towards an Islamic Micro-financing (April 14:2007).

Rehman's argument is based on the fact that micro-financing institutions have vast experience of reaching and serving the poor, while Islamic finance has a strong capital base and the expertise of structuring *Shari'a*-compliant financing to meet the needs of disadvantaged communities. However, it seems that Rehman's proposition is somehow unrealistic as it assumes that Islamic financial institutions would invest in this sector straight away. This has not been the case as the exponential growth of Islamic finance over the last 30 years was built on profit maximization as opposed to philanthropy and altruism and changing this long established custom overnight is a bit too simplistic.

Conversely, micro-financing and Islamic finance have some fundamental differences regarding the financing modes employed, as well as their strategic objectives. Below are some of these differences:

1. Conventional micro-financing is interest-based financing which is fundamentally different from the modes of finance employed by Islamic banks.

2. Conventional micro-financing institutions are mainly non-profit institutions funded by some international financial institutions such as the World Bank and the International Monetary Fund and thus are not driven by profit maximization.

3. Islamic banks on the other hand are private institutions and, like any other private entity, shareholder wealth maximization is their most basic objective, despite the moral code they have inadvertently subscribed to by branding themselves as 'Islamic' financial institutions.

4. Funding sources are also different as Islamic banks' capital is contributed by private individuals who are mainly motivated by profit maximization, while the major source of funding of conventional micro-financing institutions is from international donors and philanthropists. This implies that micro-financial institutions are not under the same pressure as private Islamic banks in terms of wealth maximization and risk taking.

Having examined the similarities and the differences between conventional micro-financing institutions and Islamic banks, it is apparent that although the two share a lot in common, there are some stark differences. This would make us question the practicality of the proposal that Islamic banks should directly bridge the gap vacated by conventional micro-finance in tackling financial exclusion.

Although any progress towards more socially- oriented financing adopted by Islamic banks is highly commendable, one must appreciate that they are, after all, commercial institutions owned and scrutinized by profiteering and business-oriented individuals and they have no choice but to strive to meet their expectations. This brings us to the next

question which is: What is the best way of meeting the financial services needs of poor, financially excluded Muslims?

It is apparent from the above discussion that placing the duty of fighting financial exclusion on the shoulders of Islamic banks is unpractical and unfair, but that does not mean that they have no role to play in this crucial task. Conversely, the present state of Islamic banks requires dramatic change to assume a greater role in the fight against the epidemic problem of financial exclusion. However, I am of the opinion that quick fixes are not the answer as this will take time and will involve strategic and operational adjustments. Responding to the current financial exclusion of poor Muslims requires appropriate, tailor-made financial institutions with the clear mandate of tackling financial exclusion among excluded Muslims.

Islamic micro-financing has been suggested by many commentators as one of the most practical ways of responding to the financial services needs of poor Muslims. As *Shari'a*-compliant micro-financing is one of the most popular solutions proposed by the critics of current practices, I will devote the next section to the subject of Islamic micro-financing as a tool for combating financial exclusion.

4.4.3 Islamic Micro-Financing as a Tool for Tackling Financial Exclusion

As I explained earlier, the provision of finance to the poor is considered to be one of the best ways of helping them as this empowers them and allows them to utilize their God-given talents. However the Muslim consumer is commanded to avoid any financial transaction involving interest (*riba*), which creates a real dilemma for the poor Muslim as

s/he is in dire need and has to compromise his or her faith which may prove to be detrimental in the long term as the following suggests

Simply extending materialism and consumerism into poor rural communities and urban shanty town settlements could actually undermine social cohesion, by raising false expectations which could not be fulfilled, resulting in long term frustration and possible social discontent or even economic crime. In so far as microfinance contributes to the growth of civil society rather than social fragmentation it is seen as desirable, although there is a worry that the institutions of civil society are secular. Supporters of Islamic alternatives to conventional microfinance have as their aim the enhancement of Islamic society, rather than with the promotion of values that might be contrary to *shariah* (Wilson, 2007.p.4).

The above extract clearly suggests that conventional micro-finance institutions are not the perfect answer to the financial services needs of poor Muslims. Nevertheless in most cases they have no choice but to accept whatever assistance is provided to them with the inner feeling of guilt that they have acted against the teaching of their faith. This might feed them temporarily, but emotionally traumatize them for the rest of their lives. Hence, the rationale for the introduction of Islamic micro-financing is that conventional micro-finance does not cater for the needs of less affluent Muslims and therefore, the suggested alternative is the introduction of micro-finance institutions working on *Shari'a* Principles.

Islamic micro-finance can be defined as the investment of capital (in cash or in kind) based on Islamic modes of finance to poor entrepreneurs in order to help them start or maintain their businesses (Smolo, 2007.p.6).

In other words, Islamic micro-financing/micro-credit refers to a *Shari'a*-compliant way of providing financing to those rejected by the mainstream financial services, to help them start up micro-enterprises or maintain their existing business. Other commentators say

that Islamic micro-finance is simply conventional micro-finance less the interest (Smolo, 2007.p.6).

Although, there are some *Shari'a*-compliant financing projects operating in some Muslim countries such as Indonesia, Yemen, Syria, Bangladesh, Sudan and North Mali, the practice of Islamic micro-financing is very limited in scope and its social contribution is minimal which could be attributed to the social failure of Islamic finance. However, there are ongoing initiatives to enhance the provision of Islamic micro-financing to poor Muslims.

A summit hosted by the Islamic Research and Training Institute (IRTI- a member of the Islamic Development Bank which is the World Bank equivalent for the Muslim world) in Dakar, the capital city of Senegal on 17th May 2007, discussed the challenges facing the development of an effective Islamic micro-financing sector. The objective was to find ways of improving Islamic micro-financing services by “integrating *zakat*(almsgiving), *awqaf*(charitable endowments) and Islamic financial contracts into financial sector development strategies” (Islamic Micro-financing Development: Framework and Strategies-Islamic financial services development forum, 2007 in Dakar, Senegal).

As the only international Islamic financial development institution, the Islamic Development Bank group has declared poverty alleviation and social inclusion as one of its strategic objectives and enhancing financial inclusion is a brilliant way of tackling social deprivation and poverty. The development of Islamic micro-financing institutions is a top priority for Islamic development now as a result of the said summit, which is good news for the Islamic micro-financing sector as it can draw on the large capital base and the expertise of this international financial institution. I hope this will greatly enhance the services of Islamic micro-financing institutions and equip them with the tools they need to

tackle financial exclusion among the poor Muslim masses. However, I am of the opinion that creating effective Islamic micro-financial institutions requires a lot of capacity and the building of infrastructure before they can face the challenge ahead.

Sources for micro-financial institutions could be many and varied, but some of the most popular sources of funds for these include *zakat*(*Almsgiving*), *sadaqa*(*Charitable giving*), *awqaf*(*Charitable endowments*) and *qard-hassan*(*Benevolence loan*) (Obaidullah, 2008). *Zakat*(*almsgiving*) is one of the pillars of Islam and is obligatory on a Muslim's wealth while the others are discretionary and entail all forms of philanthropic giving such as *tabarruat* (donations), *heba* (gifts), *infaq* (charitable spending) and when these are expected to continue over long period of time they are called *awqaf* which are a kind of endowment for charitable purposes (Obaidullah, 2008.p.25).

Ahmed (2004) argues that Islamic banks can fill this void by providing much of the required funds to finance the operations of Islamic micro financial institutions at virtually no extra cost and would demonstrate they are socially aware by partially discharging their social responsibility as far as combating financial exclusion is concerned.

According to Sadique (2007.p.53), decreasing partnership (*Musharakah Mutanaqisah*) could be effectively used by Islamic micro financing institutions in financing new business ventures as well as in asset acquisitions, provided great care is exercised in executing the contracts to avoid violating its conditions. Similarly, most of the other Islamic financing modes such as *Mudaraba*(*trust financing*), *Murabaha*(*cost-plus financing*), *Ijara*(*leasing*) and *Istisna'a*(*progressive financing*) could be applied in Islamic micro financing contracts. However, Ahmed (2007.p.75) argues that in the case of equity based financing contracts, the deal should be scrutinised to ensure the management fees

charged by the Mudarib should reflect the responsibilities assumed and the role of each party has to be explicitly detailed in the contract to avoid ambiguity and future conflict.

In a nutshell, experts on Islamic micro financing agree that enhancing the operational capabilities of Islamic micro-financing institutions and mobilizing finance through the above-mentioned mission-based approaches could substantially reduce financial exclusion among poor Muslims.

4.5 UK EXPERIENCE OF ISLAMIC FINANCE IN TACKLING FINANCIAL EXCLUSION

The objective of the rest of this chapter is to go examine the literature on the UK experience of Islamic finance since the 1980's. Where possible I will try to evaluate the various phases that Islamic banking in the UK has gone through to see the extent to which *Shari'a*-compliant banking has contributed to the financial inclusion of UK Muslims in general and the less affluent in particular and to the wider agenda of social inclusion. However, one must bear in mind that the literature on this subject is extremely limited and this may have a huge effect on what could be achieved towards to this objective.

4.5.1 Development Stages of Islamic Banking in the UK

The rationale for Islamic banking in the UK is the existence of a large, well-established Muslim community and it is not surprising that the providers of *Shari'a*-compliant financial products saw this as a business opportunity and started to offer such products in the UK. It is also quite natural to assume that, like Muslims in other parts of the world, UK

Muslims would show a keen interest in Islamic banking, given the fact that institutions operating on Islamic banking principles were flourishing in some Islamic countries such as the United Arab Emirates well before the concept was experimented within Britain.

The history of Islamic banking in the UK dates back to the 1980s, when the Al-Baraka International Bank started to accept deposits and provide some limited banking services to the UK Muslim community; since then Islamic banking has had some sort of presence in the UK. However, the quality and quantity of products offered has been evolving over the years and today there are more than six financial institutions offering a wide range of *Shari'a*-compliant financial products in the UK.

In fact, there are two major types of organization in the UK that have either offered *Shari'a*-compliant products in the past or are currently providing such services. These two types of institution can be broadly classified as follows:

The first type is the exclusive or stand-alone financial institution that has offered or is currently offering financial services in the UK, such as Al-Baraka International Bank and the Islamic Bank of Britain.

The second category of such financial institution is the Islamic windows of conventional banks. Examples include Al-Manzil of United Bank of Kuwait (later named Al-Ahli United Bank), Amanah Finance of HSBC, Al-Buraq of ABC International and the Islamic Financial Services of Lloyds TSB.

As the above-named financial institutions provided financial services in the UK at different times, I will conduct our discussion chronologically by starting with the earliest providers of *Shari'a*-compliant financial products in the UK.

4.5.2 Al-Baraka (1982-1993)

Al-Baraka International Bank was set up in the early 1980s as an exclusive Islamic bank serving the UK Muslim community with its unique *Shari'a*-compliant financial products. In fact, this was a subsidiary of the Jeddah-based Al-Baraka Investment Company, with the general objective of satisfying the *Shari'a*-compliant financial needs of the UK Muslim community. However, the people who benefited most from its services were the high net worth Middle Easterners who spent a considerable amount of time in the UK.

Al-Baraka provided various retail and wholesale banking services to its clientele in the UK. On the retail banking front, it offered current accounts, which had a minimum deposit of £150, where the depositor had to maintain a balance of £500 to use cheque facilities. The reason for these slightly stringent conditions on the current account was that, unlike conventional banks, AL-Baraka could not allow overdrafts and subsequently charge interest on the monies (Wilson, 2006.p.3).

The other important retail banking facility offered by Al-Baraka was investment deposits on a *mudaraba* (trust financing), basis for clients with funds exceeding £5,000 where 75% of the annually-declared rate of profit was paid to those deposits and 90% paid for deposits of over one year. This product became very popular and attracted a sizable amount of money, to the extent that in less than 10 years it has increased more than eight times. Al-Baraka used other banks and financial institutions to manage these large sums of money on their behalf as it lacked both the expertise and the resources to handle such transactions.

According to Wilson (2006), Al-Baraka's major concentration was on housing finance, using diminishing *musharaka*(partnership) where the property would be purchased jointly by the bank and the customer. The share of ownership was determined by the sum

contributed by each party and the bank's share would decrease as the client's share increased through instalments made of capital repayments and a fixed pre-determined profit over the contract period.

Al-Baraka's closure was largely due to the introduction of strict banking rules by the Central Bank of England in early 1991 following the collapse of BCCI, with severe consequence for many UK Muslim depositors. As it lacked the necessary critical mass to comply with the new rules and stay profitable, Al-Baraka had no choice but to opt for surrendering its banking license and continue as an investment company.

Generally speaking, Al-Baraka was relatively popular among UK Muslims as is evident from the high level increase in its deposits, despite its limited life (570% in eight years).

It may be worth mentioning that many members of the less affluent UK Muslims are of the opinion that Al-Baraka was fairly popular as far as home-financing was concerned and many of them were planning to purchase their own homes through Al-Baraka's diminishing *musharaka*(partnership) plan. However, as I was unable to locate any research on the characteristics of its customers, I cannot comment on the level of affluence of Al-Baraka's home-financing customers and the extent to which financial exclusion was reduced by the use of the bank's financial products.

4.5.3 United Bank of Kuwait - Islamic Investment Banking Unit (IIBU) (1997-1999)

After the closure of Al-Baraka in the early 1990s, there was real pressure from wealthy Muslim customers, mainly from the Middle East, for the United Bank of Kuwait to provide *Shari'a*-compliant investment products. In 1991 the United Bank of Kuwait (UBK) finally set up an Islamic window in response to the demands of their Middle East clients, with treasury management as their main focus. However, in 1995, the unit was renamed the

Islamic Investment Banking Unit (IIBU). This unit genuinely attempted to show its own identity and independence from the conventional parent company. Some crucial steps were taken towards this objective, such as moving to separate premises, initiating autonomous decision-making, having their own *Shari'a* Board, developing their own logo and brand image and maintaining a separate set of accounts.

The unit introduced its own property finance scheme called Manzil which was done through *murabaha*(cost-plus financing). This met some regulatory and legal challenges such as the double stamp duty and the extra legal fees necessitated by the way *murabaha*(cost-plus financing) transactions are structured. The key features of the Manzil *Murabaha*(cost-plus financing) were:

1. The customer chooses his/her property and agrees the price with the vendor
2. The Islamic Investment Banking Unit then enters into a purchase contract with the seller of the property and re-sells it to the customer at a higher price.
3. The customer pays the higher price in equal instalments over a term of up to 15 years.
4. Following the completion of the purchase, the property is registered in the customer's name and the Bank holds security over it in the form of a legal charge (mortgage).
5. The monthly payments are fixed and will not alter throughout the payment term.

The bank merged with Al-Ahli bank in the late 1990s and the unit no longer provided Manzil *murabaha*(cost-plus financing).

Although there is very little literature on the operations of Manzil *murabaha*(cost-plus financing), it is quite obvious that it did not meet the expectations of the United Bank of Kuwait and the sudden demise of this product became necessary as the cost of running

this operation was far more than the business it was generating according to the staff of the Manzil *murabaha*(cost-plus financing).

The practice of conventional banks trying to capture their fair share of the 1.8 million UK Muslim market was not confined to the United Bank of Kuwait (UBK).

Despite the limited success of UBK's Manzil product, other banks tried to emulate it by setting up Islamic windows alongside their conventional products (having a *halal* window in a *haram* house as one commentator put it).

The most prominent such products include Amanah Islamic finance, Lloyds TSB Islamic Financial Services and Al-Buraq Home Finance, which are *Shari'a* -compliant financial subsidiaries of conventional banks. I will briefly introduce the services provided under each of the above-named Islamic windows.

4.5.4 Amanah Islamic Finance through HSBC (2003 to date)

HSBC Amanah was established in 1998 to cater for the financial services needs of their ethical and *Shari'a*-observant clients and since then it has offered *Shari'a*-compliant financial products in many parts of the world. It claims that it does not compromise the authenticity of its products as they are scrutinized by the bank's highly respected and competent *Shari'a* Committee.

HSBC Amanah began offering *Shari'a*-compliant financial products in the UK in 2003 and the products offered range from basic current account to *Shari'a*-compliant home financing and a *Shari'a*-compliant pension fund.

HSBC Amanah's current account is designed to meet the basic banking needs of the bank's Muslim customers where the client can enjoy all the convenience and security of a regular current account as the bank provides the assurance that their money is not being used to promote activities prohibited by *Shari'a*. (www.hsbcamanah.com, accessed November 2008)

Similarly, HSBC provides a time deposit investment account based on *murabaha* (cost-plus financing) where the client's funds will be invested in commodities and the accrued profits will be paid on the due date, stipulated in the initial agreement.

Initially HSBC started home-financing facilities based on *ijara* (leasing) and *murabaha* (cost-plus financing), although diminishing *musharaka* (partnership) was later introduced. According to the information available on HSBC website, in the case *Murabaha* (cost-plus financing) based re-mortgage, the bank replaces the client's conventional mortgage with a trade-based *Shari'a* compliant mortgage by buying the house from the conventional bank that has originally financed it and re-sells it to the customer over a period of time agreed between the parties with a fixed instalments. However, the bank states that their *Ijara* (leasing) product works like a floating rate mortgage where they lease the property to the customer and receive monthly rental payments in return. On completion of the lease period, the title of property is transferred to the customer. (www.hsbcamanah.com, accessed November 2008)

HSBC boasts that it is the first UK high-street bank to offer a *Shari'a*-compliant pension fund. According to HSBC, this pension fund is aimed at complementing the other *Shari'a*-compliant financial products that HSBC offers its UK customers.

The distinguishing features of HSBC's *Shari'a*-compliant pension fund is that it doesn't invest in certain products and services such as alcohol, pork products, tobacco and a host of other products and services prohibited by the *Shari'a*. HSBC states that its new pension is available to UK employers who want to invest in ethical pension funds as theirs does not invest in certain prohibited industries including alcohol production or distribution, pork products, tobacco and conventional financial services. Although, this pension fund is only accessible to UK employers at the moment, the bank predicts that it will be made available in other countries according to demand. (www.hsbcamanah.com, accessed November 2008)

4.5.5 Lloyds TSB Islamic Financial Services through Lloyds TSB (2005 to date)

Lloyds TSB is another example of a conventional bank offering *Shari'a*-compliant financial products to thwart the threat posed by the newly-established stand-alone Islamic Bank of Britain. Lloyds TSB offers various *Shari'a*-compliant financial products, including a current account, student account, investment fund and a business and corporate account. It also offers a *Shari'a*-compliant mortgage which is done through the Arab Banking Corporation International Bank (ABC)

Lloyds TSB offers the above-mentioned *Shari'a* -compliant financial products through 32 of its branches across the country which gives it a competitive edge as the ease with which one can access its *Shari'a* -compliant financial products places it in a far better

position than many of its competitors. The head of Lloyds TSB Islamic Financial Services stated at a press conference on the 19th December 2005:

With more than thirty branches now offering Islamic financial services throughout the UK, there is a real choice on the high street for Muslims who want an alternative to conventional current accounts and mortgages.

We are proud to be able to give these customers something we know they will value (www.mediacente.lloydstsb.com, accessed December 2008)

Lloyds TSB Islamic Financial Services claim that their products are not only *Shari'a*-compliant, but are also very competitive.

Lloyds TSB's *Shari'a*-compliant home-financing plan is through Arab Banking Corporation International Bank (ABC) which facilitates this product through Al-Buraq which will be introduced in the next section.

4.5.6 Al-Buraq Home Finance (2005 to date)

According to various Islamic texts, Al-Buraq was the name of the flying creature that carried the Prophet Mohammed (PBUH) on the night of his journey from Mecca to Jerusalem and because of the special importance attached to this horse-like creature, it is widely used for commercial purposes to show some sort of association to Islam and one of its mysteries. The name is used by different companies in different parts of the world and the UK is no exception.

In the UK, Al-Buraq is the Islamic brand name of ABC International Bank plc for *Shari'a*-compliant home financing. The financing is done in partnership with the Bank of Ireland through the Bristol and West, a former building society.

The following extract explains the reasons why ABC chose this name.

This name is chosen because it represents many of the values of ABC including trust, reliability and stability. Al-buraq also represents a journey to a new type of financial service, where Islamic principles are foremost and where education, honesty and quality of service are key (www.alburaq.co.uk, accessed January, 2009).

This product is available to UK residents and those who have leave to remain in the UK. There are also products available to UK non-residents who are planning to purchase residential products in the UK for investment purposes.

Al-Buraq's *Shari'a*-compliant finance is offered in association with the Governor and Company of Bank of Ireland. Under the current arrangement, the Bank of Ireland provides the finance which makes Al-Buraq home financing products competitive and flexible (www.alburaq.co.uk, accessed January, 2009). .

4.5.7 Evaluation of the UK Islamic Windows

The main objective of these institutions in offering *Shari'a*-compliant financial products is to get their fair share of the UK Muslim market and to thwart the threat posed by the other institutions providing *Shari'a*-compliant financial products, especially the stand-alone Islamic Bank of Britain. Theoretically this bank must pose a great threat to the conventional banks offering Islamic financial products as it is the only fully fledged, stand-alone *Shari'a*-compliant bank in the UK and it is commercially quite natural for these banks to be concerned about their Muslim customers and strive to do all in their power to retain them. No doubt most of the above-mentioned banks have better knowledge of the UK financial services market and are better-resourced in terms of

manpower and capital than the newly-established Islamic Bank of Britain and thus pose a serious commercial threat to its success.

Apart from the fierce competition among these institutions and their fight over customer retention, I was unable to locate any evidence suggesting that they have contributed to the financial inclusion of the UK Muslim community in general or the less affluent members of this community in particular. Since this is the topic of this thesis, I hope to be in a better position to understand how the *Shari'a*-compliant financial products provided by these institutions do indeed impact on this community's access to such products and the extent to which this provision has enhanced their demand, access and consumption of financial services.

In fact, the range of financial services provided by these institutions is limited to mainly *Shari'a*-compliant basic accounts and mortgages and therefore is not as robust and varied as the financial services offered by the Islamic Bank of Britain which we will cover in the following section.

4.6 THE ISLAMIC BANK OF BRITAIN

The Islamic Bank of Britain received the authorization of the Financial Services Authority on the 6th August 2004 to provide *Shari'a*-compliant financial products in the UK. (www.islamic-bank.com, accessed June, 2008) According to the press release on the day it was launched, the initial capital of £14 million was raised in 2002 from shareholders in the UK and in the Gulf.

The Islamic Bank of Britain is the first and the only stand-alone retail bank providing *Shari'*-compliant financial products as the following excerpt from one of its brochures suggest.

Islamic Bank of Britain is the UK's first-stand alone *Shari'a*-compliant bank and the first Islamic bank to be granted authorization by the UK's banking regulator, the Financial Services Authority (FSA)".

There is no doubt that the Islamic Bank of Britain is unique in many aspects and it certainly tried to capitalize on its competitive edge, at least in press releases where some crucial information was placed in the public domain, such as their expansion plans and the range of services they planned to offer.

The bank has disseminated a lot of crucial information to the public on its press releases with the objective of creating awareness for its products and educating them about the unique features of their *Shari'a* compliant financial products. The bank has tried very hard to convey the message that it is unique in many ways as it is the only fully *Shari'a* compliant British bank regulated by the UK Financial Services Authority (FSA). The fact that it is authorised and regulated by the FSA means that it has to observe high regulatory standards which safeguard the customer.

The bank also shared some its expansion plans with the general public including where the first branch would be as well as the banking services it would offer.

Indeed, the bank has embarked on a massive promotional and marketing campaign to distinguish itself from the Islamic windows of conventional banks and some of its famous slogans include: "Islamic Bank of Britain now offers you a real choice" (Business banking brochure, Islamic Bank of Britain)

This is a good example of the bank trying to convince the UK Muslim community that they did not have a real choice before the establishment of the Islamic Bank of Britain, but they do now and should come to the bank for their financial services needs. “All the security and expertise of a high street bank, in a *Shari’a*-compliant way” (Business banking brochure, Islamic Bank of Britain). This advertising statement also assures British Muslims that the era of the Islamic banks’ being exclusively for the well-off is gone and now *Shari’a*-compliant retail banking has finally arrived to serve the average UK Muslim.

If you are looking for a bank there are lots you can choose from. But if you are looking for a bank that is competitive and consistent with your faith, you now have a real choice (www.islamic-bank.com, accessed June, 2008).

Here the bank is completely distinguishing itself from the rest by claiming that it is the natural choice for people who want to abide by the commandments of their Islamic faith and be involved in the financial services industry.

4.6.1 Products Provided by the Islamic Bank of Britain;

The Islamic Bank of Britain provides various *Shari’a*-compliant personal and business accounts as well as home financing facilities. I will briefly introduce these various financial products in the coming section, starting with personal banking facilities.

4.6.2 Personal banking facilities

Personal banking products offered by the Islamic Bank of Britain include personal current accounts, savings accounts (term deposits), *wakala* treasury deposit accounts and young person's savings accounts. The salient features of all the above accounts will be dealt with in the following section.

- **Personal current accounts**

The personal current account of the Islamic Bank of Britain has the usual characteristics of any other *Shari'a* -compliant current account as it does not pay or receive interest while allowing the customer to take advantage of this crucial banking facility. The concept of *qard hassan* (beneficial loan) is the underlying principle in the operation of this account as the bank accepts deposits from the customer as a loan to the bank which will be paid back in full on demand. The bank is allowed to use the money while it is in its custody for various purposes, but should return the sum to the customer on demand without paying interest to the customer. Another important concept in this arrangement is that of *wadi'a* (safekeeping) which means the bank is safekeeping the customer's funds until demanded.

The benefits of having a current account that is consistent with *Shari'a* principles are many, such as the day-to-day management of one's accounts, including the payment and receipt of money, standing orders, direct debits the use of chequebook and ATM facilities. Since the bank is not paying interest to the customer, all these services are provided free of charge.

- **Savings accounts (Term deposits)**

These are based on *murabaha* (cost-plus financing) where the bank invests the customer's money in ethical activities and shares the profit generated with the customer according to the agreed-upon sharing ratio which is paid on the stipulated due dates. According to the information posted on the website of the Islamic Bank of Britain, a key feature of this product is that the customer is free to make any number of withdrawals in any month without incurring a penalty and the profit paid to the customer is based on the daily closing balance maintained by the customer. The required initial deposit to open this account is £500 or the setting up of a standing order from another account for a minimum of £50 a month.

- ***Wakala* treasury deposit accounts**

These work under the principle of *wakala* (agency agreement). The bank acts as the agent under this arrangement and promises to pay the customer an agreed expected profit rate over an agreed period of time.

The bank should achieve this expected rate of profit or cancel the agreement before the maturity date and pay the customer all the accrued profits up to the date the agreement is cancelled. The objective is to minimize the risk to the customer of not achieving the expected profit or having access to his money. £50,000 pounds is the minimum deposit required to open such an account and it can be in a number of currencies such as US dollars or Euros, provided the sum is equivalent to £50,000. According to the information provided by the Islamic Bank of Britain, this facility is available to both personal and business customers as well as charities and mosques.

Once agreed, the customer cannot withdraw from this account until the maturity date. Although it very much resembles a conventional time deposit account, the bank states that this product is approved by its *Shari'a* Supervisory Committee.

- **Young person's savings account**

This is another *Shari'a*-compliant savings account offered by the Islamic Bank of Britain, specifically for the children of *Shari'a* observant UK Muslims.

The objective is to enable parent to save for their children where the money would grow in a *Shari'a*-compliant manner. This account does not ask for much as it can be started with as little as £20 and after that anyone can deposit into this account by various means, including telephone, post or by setting up standing orders. However, the beneficiary will be the child under whose name the account is opened and the parent or the guardian will be the trustee of the account.

4.6.3 Business Banking Facilities Offered by the Islamic Bank of Britain

"For Business Banking that's consistent with your faith, call us now (Business banking brochure, Islamic Bank of Britain).

As the above extract suggests the bank is trying to attract the UK Muslim community by providing *Shari'a*-compliant business-financial products and below are some of the products it provides to its business customers

- **Business current account**

On the business front, the Islamic Bank of Britain offers a *Shari'a*-compliant business current account which allows customers to access this service without compromising their faith. According to the information presented on the website of the Islamic Bank of Britain, this account offers all the banking facilities that a normal business account would offer, such as monthly payments, chequebooks and debit cards for general business payments and withdrawals, as well as access to the bank's foreign currency and traveller's cheque facilities.

- **On-demand savings business account**

According to the information provided by the Islamic Bank of Britain, this account creates a great opportunity for business depositors who have excess cash in their business account, by allowing the bank to invest their money in *Shari'a*-compliant activities and share the profit with them on the *murabaha*(cost-plus financing) principle. The benefits of this product are that there is no notice required when making withdrawals and it does not require a large sum as it can be opened with as little as £20. Similar but slightly different accounts are the term deposit business account which also works on the principle of *murabaha*(cost-plus financing) and the treasury deposit account.

Both of these accounts require larger sums of money than the on-demand business account and they have maturity dates unlike the above-mentioned account. The term deposit account requires a minimum of £5,000 while the treasury deposit account is for investments exceeding £100,000. In both cases the bank would enter into a *murabaha*(cost-plus financing) contract with the customer and, once it is agreed, start buying and selling *halal* commodities on behalf of the customer and would share the generated profit.

4.6.4 Evaluation of the *Shari'a* Compliant Banking Facilities Available for Tackling Financial Exclusion in the UK

All of the above-mentioned products and transaction services are very similar to those which conventional commercial banks offer to their customers, with the main difference being the absence of interest on the balance kept by the customer as well as the time deposits which earn profit instead of interest. Some people see this as a weakness in the Islamic banking system, as the fact that Islamic banks are holding large amounts of money without paying interest on it may brand them as bloodsuckers.

Again this needs to be looked at closely to see what Islamic banks do with the balances sitting in their current accounts. A counter-argument could be that running current accounts is normally not profitable for most banks and therefore Islamic banks are not an exception.

Another difference is the replacement of interest with profit. Almost all the financial institutions that offer *Shari'a*-compliant financial products are offering *Mudarab*(trust financing)- based term deposits with minor differences with the objective of attracting ethical and *Shari'a*-observant customers who will not deal with conventional banks due to fear of interest. The Islamic Bank of Britain offers *Murabaha*(cost-plus financing) deposits, which some see as a less acceptable from *Shari'a* perspective.

Ideally, this would appeal to all those customers who have excess funds and do not have term deposit accounts, as they would be encouraged by earning more in a *Shari'a*-compliant manner. This would increase the number of people banking with these institutions and thus enhance overall financial inclusion. However, the objective of this thesis is to understand the extent to which *Shari'a*-compliant financial products contribute

to the financial inclusiveness of less affluent UK Muslims who represent a very large portion of the 1.8 Muslims currently living in the UK.

Although the data available on this crucial fact is very sparse and in many cases non-existent, the general consensus among less affluent UK Muslims is that these products have scarcely influenced their attitudes towards accessing financial products as they see no difference between these products and their conventional counterparts. Some are of the view that from the point of view of *Shari'a*, these products are even more dangerous as they would amount to legitimatizing interest which is strictly avoided in Islam.

Although, there may be a host of other complex reasons, in my view the major source of this scepticism relates to the type of financing modes applied which are debt-based. For instance, all the term deposit accounts offered by the above mentioned financial institutions are based on *murabaha*(cost-plus financing) which is one of the most controversial Islamic financial instruments. The applications of debt-based financial instruments such as *murabaha*(cost-plus financing) and *ijara*(leasing) are not limited to the financial institutions offering *Shari'a*-compliant finance in the UK, but are very popular in Islamic banking across the globe as they account for more than 90% of all the financing instruments currently offered by Islamic banks. It is therefore worth briefly looking at some of the controversy surrounding these products to try to gain a better understanding of the reasons for the strong scepticism expressed by the UK Muslim community in general, and the less affluent members of this community in particular, towards these products

It seems that Islamic banks have been employing these financial instruments due to their minimum risk and fewer complications compared to the equity-based modes of finance. However, times are getting tougher for the Islamic finance industry as the problems

associated with these instruments are being increasingly discussed with suspicion and a great deal of scepticism is being voiced regarding the functions of Islamic banks relying on these modes of finance. It is interesting to note that according to Dr Shahid Hassan Siddiqui, some respected *Shari'a* scholars in the field of Islamic finance, such as Sheikh Taqi Usmani, are now publicly admitting that the current application of the debt-based modes of finance is almost identical to conventional modes of financing and warn of the great danger associated with the mere use of the *Shari'a*-compliant term to solicit innocent Muslim customers as it would eventually backfire and would do more harm than good to the advancement of Islamic finance. He further concurs with idea that the permissibility of the debt-based instruments is abused as the *Shari'a* allows these methods only where the equity-based modes cannot work.

According to Dr Shahid Sheikh Taqi: -

- a) Islamic banks are using the instrument of *Murabaha*(cost-plus financing) and *Ijara*(leasing) within the framework of the conventional benchmarks like LIBOR etc. where the net result does not differ much from interest-based transactions.
- b) By not even gradually enhancing the financing on PLS basis, the basic philosophy of Islamic banking seems to be totally neglected by the Islamic banks.
- c) The *Shariah* Scholars have allowed the use of fixed return financing techniques i.e. *Murabaha*(cost-plus financing) & leasing etc only in those spheres where *Musharaka*(partnership) cannot work.
- d) When the common people realise that the net result in the transaction of the Islamic banks is the same as was in the transactions of conventional banks,

they become sceptical towards the function of Islamic banks. It therefore, becomes very difficult to argue the case for Islamic banking, especially before the non- Muslims who feel that it is nothing but a matter of twisting documents only (Siddiqui, 2002.p.4).

Nejatullah Siddiqui, goes even further by calling for the removal of these debt-based instruments from the list of permissible methods for Islamic finance, as the harm they cause to the Islamic finance industry is more than the good they bring to it.

I would prefer that Bai' Mu'ajjal is removed from the list of permissible methods altogether. Even if we concede its permissibility in legal form, we have the overriding legal maxim that anything leading to something prohibited stands prohibited. It will be advisable to apply this maxim to Bai'Mu'ajjal in order to save interest-free banking from being sabotaged from within (Siddiqui, 2002.p.6).

Bai'Muajjal is a generic term that is used to describe all types of deferred sale forms, one of which is *murabaha*(cost-plus financing).

4.6.5 Home financing offered by the Islamic Bank of Britain

“Islamic Bank of Britain now brings you home finance that is consistent with your faith” (Islamic Bank of Britain brochure, 2008).

The Islamic Bank of Britain's home financing plan is based on diminishing *musharaka* (partnership) which will be explained in the following section. However, it is worth mentioning here that the Islamic Bank of Britain tries very hard to distinguish itself from the conventional banks that offer *Shari'a*-compliant home financing products, in the sense that theirs is purely *halal* as the institution as a whole is *Shari'a*-compliant, unlike

their counterparts which are basically conventional banks offering *Shari'a*-compliant finance as the following extract suggests

Britain's Muslim community can now take advantage of shari'a compliant mortgages from the UK's only totally Islamic British bank with a new Home Finance plan launched this week by Islamic Bank of Britain (www.islamic-bank.com, accessed December 2008).

The mechanics of diminishing *musharaka*(partnership) as explained by the Islamic Bank of Britain is presented on its website (www.islamic-bank.com, accessed December 2008) and the way it works is that the customer needs to find the property he/she would like to purchase and agree the purchase price with the vendor. The bank and the customer would then jointly purchase the property together where the customer becomes the tenant by taking a lease from the bank and paying monthly rent to the bank for the use of the bank's share of the property. In addition to the monthly rental payment, the customer would make additional repayment of the bank's share in the property to increase his/her share ownership of the property. During this period, the bank will have a legal charge on the property and the customer would be the leaseholder of the same. On completion of the above mentioned instalments, the property deed is transferred to the customer(www.islamic-bank.com, accessed December 2008).

According to the Islamic Bank of Britain, this facility is available for people who are over 18 years old and are working or self-employed who can use the self certification option. The maximum term available is 25 years and the minimum deposit is 10% of the purchase price. The bank also states that this plan is available for people who are purchasing their properties for the first time and for those who are re-financing from existing mortgages

The Islamic Bank of Britain claims that by introducing this facility they believe they will reduce financial exclusion among the UK Muslim community as many of them were previously unable to access the existing home financing facilities for religious reasons

and others were compromising their faith in order to get onto the property ladder. They argue that this product will give them real choice without violating the principles of their faith as finance Director, Mr Ashraf Piranie, stated in the first week this product was launched

Prior to the above-mentioned home-financing facility provided by the Islamic Bank of Britain, the modes of finance used for home financing in the UK had changed over time. For instance, the first home-financing scheme which was provided by Al-Baraka in the 1980s was based on diminishing *musharaka*(partnership) and the *Manzil* home-financing offered by the United Bank of Kuwait in the late 1990s was based on *murabaha*(cost-plus financing) contracts, with fixed monthly payments that comprised the capital repayment portion together with the mark-up profit margin. Later the *ijara*(leasing) mode of financing entered the scene, where the bank would buy the property and the client would pay the rent and monthly capital repayment. *Ijara*(leasing), despite its inherent problem of using LIBOR as the bench mark, was relatively well received compared to its predecessor, *murabaha*(cost-plus financing). However, although *ijara*(leasing) was favoured for a while over *murabaha*(cost-plus financing), the most popular mode in home-financing seems to be diminishing *musharaka*(partnership) where the bank and the customer purchase the property jointly with ownership proportional to the capital contributed by each party. The client's ownership increases through the monthly installments they pay to the bank soon after the purchase deal is completed. Most of the banks engaged in Islamic banking in the UK offer their home-financing products through Al-Buraq which mainly uses diminishing *musharaka*(partnership), although *ijara*(leasing) is also an option if the customer prefers it.

4.6.6 Evaluation of the Islamic Modes of Home-Finance Applied in the UK to Reduce Financial Exclusion Among Poor UK Muslims.

As I stated earlier *murabaha*(cost-plus financing) and *ijara*(leasing) modes of finance dominated the home-financing schemes used in the UK from the 1990s, although diminishing *musharaka*(partnership) is the preferred option for this purpose these days. However, some banks still continue to use *murabaha*(cost-plus financing) and *ijara*(leasing) to finance people wishing to buy their homes. Nevertheless some commentators have tried to explain the mechanics of these instruments to show that they are identical to a conventional mortgage in every aspect. For instance, they explain the mechanics of *Murabaha*(cost-plus financing)which I have already explained in previous sections of the thesis. Usually, *Murabaha*(cost-plus financing) purchase involves the bank, the vendor of the property and the customer. The way it works is that the bank would purchase the property from the vendor and resells to the customer with a profit margin. However, the bank allows the customer to pay the initial capital and the profit margin in installments over a number of years while the bank holds a legal charge on the property to protect its interest in case the customer defaults. The critics of this financing mode argue that the bank usually borrows the money for financing this deal from the money market at an interest rate lower than what they would charge the customer. Since, *Murabaha* (cost-plus financing) installments should be fixed to be *Shari'a* compliant, these banks use interest rate swap market to fix their interest payments to their creditors at the money market. This enables the bank to stabilise their payments and make a profit on the deal. According to these commentators, this is exactly how fixed mortgages are financed and that makes *Murabaha*(cost-plus financing) inseparable from fixed interest mortgages (Al-Haddad and El-Diwany, 2006.p.2).

The above discussion suggests that the way *murabaha*(cost-plus financing) is used to finance home-purchasing is identical to conventional home-purchase plans which is very worrying for a lot of people who choose to conduct their business in a manner consistent with their faith. What they getting is actually identical to a conventional mortgage apart from the name.

People want to know why they have to make all this effort and pay extra costs if the products are similar in terms of sourcing the funds and determining the profit and the subsequent cash flow.

Some commentators are of the opinion that the close resemblance of *murabaha*(cost-plus financing) to a conventional fixed-interest mortgage is still very much alive in the minds of many people. It is the general belief among UK Muslims that it is one of the major reasons for the low demand for this product in the UK. They argue that, although it is currently hardly used by the *Shari'a*-compliant home financing providers in the UK, it is still central to the strong scepticism expressed by many UK Muslims as far as Islamic home financing is concerned.

Ijara(leasing) which used to be a fairly commonly-used mode of home-financing in the UK also has many characteristics that may compromise its authenticity according to some commentators on the subject.

Ijara(leasing) is an Arabic term and it simply means renting an item from its owner. If the tenant has the option of purchasing that item at the end of lease period, then it is called *Ijara*(leasing) *wa iqtina*(lease followed by sale). However, the problem with the *Ijara*(leasing) *wa Iqtina* for home-financing deals lies with close similarities between this financing mode and its conventional lease financing deals. For instance, the rental income from the tenant is made of two

portions. The first part is the normal rental payment that is due from him/her and the part is called is held by the bank as assurance that the client will be able to pay the purchase price at the end of the lease period. According some critics of this practise, the bank then loans out this money to the money market to earn interest on it and the payment expected from the customer is constructed in a manner that would enable the bank to meet its loan commitments to its borrowers at the money market without disruption 'as an amortized, interest-based loan' (Al-Haddad and El-Diwany, 2006.p.2).

It may well be true that the above mentioned unattractive features of the initial *Shari'a*-compliant home-financing modes applied by the providers of such finance in the UK have played a critical role in the current low uptake of those products, but there are important factors as far as the difficulties facing the provision of Islamic home- finance in the UK is concerned including:

1. Relatively higher costs than their conventional counter parts caused by the inherent related costs, such as compulsory insurance and dual legal fees.
2. The low socio-economic profile of the UK Muslim is another factor contributing to low demand for these products, as the majority cannot afford to pay the initial deposit
3. Lack of education about the products on offer and effective promotional and marketing strategies.

The above list is not meant to be exhaustive, but to enlighten us a little about the factors affecting the low demand for *Shari'a*-compliant financial products. However, one could argue that it is the suspicion surrounding the two financing modes discussed above that

is causing a lot of Muslims in the UK to lack confidence in any *Shari'a*-compliant financial product and is thus leading to the low uptake of the available *Shari'a*-compliant home-financing schemes. However, since I do not have any reliable evidence either supporting the above assertion or refuting it, I can only state here that this is the view of some which deserves further investigation. Furthermore, some commentators are of the view that the fact that the *Shari'a* compliant financial products currently on offer do not meet the financial services needs of the less affluent UK Muslims who represent a significant number of the UK Muslim population is another major reason why the less affluent UK Muslims are not accessing such products. The proponents of this argument suggest that the financial services needs of the less affluent UK Muslims include business start-up capital working on the principle of *Musharaka*(partnership) involving small and medium size business ventures as well as *Qard Hassan*(benevolent loan) loans for the very poor. Similarly, *Shari'a* compliant small scale investment and saving schemes working on the principle of *Mudaraba*(trust financing) would encourage a lot of Muslims to change their perception about the *Shari'a* compliant financial products currently on offer in the UK. However, the answer to the question of the demand for *Shari'a* compliant so low is expected to emerge from the analysis of the survey questionnaire and the semi-structured interviews that will be carried out as part of the empirical study of this thesis.

4.7 SUMMARY

In this chapter, I have tried to tackle two issues. Firstly, I visited some of the Islamic principles on the subject of social and economic justice as one of the prime objectives of Islamic *Shari'a*. Some Qur'anic verses and sayings (*ahadith*-plural of *hadith*) of the

Prophet Mohammed (PBUH) were narrated with the objective of understanding the importance that Islam attaches to the same.

In particular, the treatment of poverty in Islam, as one of the clearest manifestations of social and financial exclusion, and the socio-economic objectives of Islamic economics and finance, were briefly covered followed by the importance of Islamic micro-financing as a tool for combating poverty, and its first and most obvious consequences, social and financial exclusion.

Secondly, I introduced the history of Islamic banking in the UK with a brief explanation of the *Shari'a*-compliant financial instruments offered in Britain since Islamic banking arrived here in the 1980s, with special emphasis on the *Shari'* a-compliant home-financing instruments applied by UK-based financial institutions serving the UK Muslim community. The above exercise was undertaken with the aim of appreciating the impact that Islamic banking has had on the financial inclusion of less affluent UK Muslims. Also, the Islamic financial instruments employed by the providers of *Shari'a*-compliant finance in the UK were briefly evaluated to ascertain their suitability to the financial services needs of the Muslim community in general and less affluent UK Muslims, who make up the majority of UK Muslims, in particular.

Finally, the provision of *Shari'a*-compliant home-financing was evaluated in an attempt to answer the research questions and to understand the reasons for the low up-take of *Shari'a*-compliant financial products in the UK, especially home-financing

Chapter 5

FINANCIAL INCLUSION INITIATIVES IN THE UK AND THEIR RELEVANCE TO THE LESS AFFLUENT UK MUSLIM COMMUNITIES

5.0 INTRODUCTION

A decade ago financial exclusion was a relatively new concept. However, in the last ten years, it has emerged as a policy concern in the context of a wider agenda about social exclusion (Mitton, 2008.p.12)

I have explained in the previous chapter that financial exclusion is an acute problem facing many people in Britain including the less affluent UK Muslims.

It is also true that less affluent UK Muslims are not alone in this respect as the factors that cause financial exclusion are common to all those who are disadvantaged in one way or another. However, the financial exclusion and the social deprivation problems facing less affluent UK Muslims are exacerbated by the fact that, in addition to all the other inherent barriers to financial services, they have to observe Islamic law (*Shari'a*) in their financial dealings. Hence, finding a suitable solution to their predicament is extremely difficult as it is necessary to take into account all the common and specific factors that lead to financial exclusion, while bearing in mind the *Shari'a* requirements as far as financial transactions are concerned.

One of the possible answers to faith related financial exclusion is the provision of *Shari'a*-compliant financial products as many UK government officials have stated at various conferences. However, the majority of those who are financially excluded are usually at

the bottom of the wealth ladder and cannot afford most of the *Shari'a*-compliant financial products currently on offer in the UK which favour the affluent.

Indeed, this creates a real challenge for all concerned and this chapter will address this issue. This will be achieved by examining the relevance of the current financial inclusion initiatives operating in the UK and considering what products and other financial services should be made available by the private UK financial institutions which offer *Shari'a*-compliant finance in the UK, the Government departments involved in tackling the issue of financial and social deprivation and the voluntary sector. The social implication of leaving this huge task to the private and the profit- oriented financial institutions would be both unfair and unrealistic. It is commendable that, in acknowledgment of this fact, the British government has taken a keen interest in the subject of financial exclusion as I have mentioned in previous chapters. Various initiatives under the auspices of different governmental departments and statutory bodies are currently underway, covering all four countries of the United Kingdom. In addition to these governmental schemes, the private and the voluntary sectors are actively involved in this task. The details of these initiatives with a brief analysis to their relevance to the less affluent UK Muslim communities will be tackled in this chapter. As the bulk of the said financial inclusion schemes are public-sector driven, more time will be devoted to the various governmental projects and funds established to combat financial and social deprivation in the UK.

Similarly, micro-financing and micro- credit institutions are usually one of the most commonly known traditional means of responding to financial exclusion to remedy the problems of social deprivation and poverty among the poor members of the society. However, the problem is more complicated for UK Muslims who have to observe *Shari'a*

requirements in their financial dealings on top of all the other multiple barriers that face all poor and disadvantaged people regardless of colour or creed.

Bearing the above in mind, I will also look briefly at UK micro-finance institutions with the aim of understanding the extent of the services provided, number of people served and the type of financing/credit facilities provided as well as the different segments of the population served. It is the objective of this thesis to study how the financial services needs of less affluent UK Muslims could be improved. Since interest-based micro-financing does not appeal to the less affluent UK Muslims, the alternative would be some sort of *Shari'a*-compliant micro-financing.

Micro-financing is usually looked at from the social development perspective as it is not profit-oriented. I will briefly study the services provided by the UK micro-financing industry and their contribution to reducing financial exclusion among the disadvantaged groups and individuals. By looking at these institutions, I will also find out if other forms of micro-financing facilities could be employed to cater for the financial services needs of the less affluent UK Muslims who are not accessing the existing *Shari'a*-compliant financial products currently on offer, due to many factors including affordability, acceptability and accessibility among others.

5.1 FINANCIAL INCLUSION INITIATIVES IN THE UK

As I have discussed in previous parts of this thesis, financial exclusion has been a top priority and a real policy concern in the UK due to the close link between financial and social deprivation.

Consequently, the matter is tackled strategically at policy level and various governmental departments are granted statutory powers and are entrusted with public resources to deal with this problem. These include: the Cabinet Office, the Financial Services Authority (FSA), HM Treasury, Department for Work and Pensions (DWP), the Legal Services Commission (LSC), the Office of Fair Trading (OFT), Department for Business, Enterprise and Regulatory Reform (BERR), Department for Innovation, Universities and Skills (DIUS), and Ministry of Justice (MoJ). In addition to these governmental and statutory bodies, there are task-specific and cross-cutting bodies whose task is to monitor how various initiatives are meeting their objectives, such as the Financial Inclusion Taskforce (FIT) (Mitton, 2008).

Although it is outside the scope of this study to go into the specifics of the work carried out by the above mentioned governmental and statutory bodies, I will briefly visit some of the most prominent contributions made by these initiatives.

Policy Actions Teams (PATs), who are a group of researchers and policy makers with the mandate of making policy recommendations to tackle social and financial exclusion, were formed by the Cabinet Office's Social Exclusion Unit soon after it was appointed. One of these policy action teams', mandates, especially policy action team 14 (PAT14), is specifically concerned with widening access to financial services and they published a report on the subject in 1999.

The FSA has contributed greatly in the fight against financial exclusion in the UK as I have mentioned in previous sections and chapters. Some of the notable services offered by the FSA in this endeavour include publishing the document entitled "Towards a National Strategy for Financial Capabilities" (2003) which it produced after bringing together various stakeholders including the Government, the financial services industry

and the voluntary sector. The FSA is involved in many initiatives aimed at tackling financial exclusion, including the FSA's Financial Capability Innovation Fund which came into effect in June 2005 to provide grants to innovative financial inclusion projects run by voluntary organizations.

A significant amount of public funds, including the Financial Inclusion Fund from the HM Treasury, has also been set aside for tackling financial inclusion.

According to the Mitton Report (2008) this £120 million fund was aimed at covering financial inclusion related services such as access to banking, affordable credit and face-to-face money advice (HM Treasury, 2004) for a period of three years (2004-2007), but was later extended for another three years to be operational until 2011.

The funds were allocated to different schemes tackling various aspects of financial exclusion, such as the Department for Work and Pensions Growth Fund that supports third sector lenders like credit unions and the face-to-face money advice coordinated by the Department for Trade and Industry which received £45 million from the said fund.

Apart from the above-mentioned government schemes, there are other key players engaged in financial inclusion initiatives, such as the banking industry and a third sector which encompasses credit unions, other community development financial institutions and housing associations. This sector is best placed to play a key role in tackling financial exclusion due to its natural proximity to the most vulnerable groups and the wide trust they usually enjoy among these social groups, unlike private sector bankers and Government agencies (Collard et al:2003). Given the important role these institutions can play in combating financial exclusion, it is sensible to briefly visit their history as well as the services they offer in the UK.

5.2 MICRO-CREDIT AND FINANCING INSTITUTIONS IN THE UK

Although the concept of micro-financing is centuries old, the origins of contemporary micro-finance was in Asia and currently most contemporary micro-financing institutions operate in Asia and Africa (www.globalenvision.org, accessed January 2009). However, in some parts of the Western world, including the United States of America and some European countries, new forms of financial intermediaries have recently emerged with the objective of combining social interest and financial return for their shareholders

According to Professor Yunus of Grameen Bank (banking for the poor), social enterprising is the way forward to alleviate poverty. There is no doubt that this is a new and positive initiative, which is gaining popularity in many parts of the world, and the institutions providing this service are said to be in the business of 'social banking', though they are better known as community development financial institutions (CDFI's). One interesting characteristic of these institutions is that they try to combine maximizing their financial return with serving the vulnerable members of the community by providing the necessary financial services and crucial advice about undertaking viable enterprises. Although the literature on these institutions is limited, six such organizations are cited in the available literature. The most common community development financial institutions include community development banks, community development credit unions, community development loan funds, community development venture capital funds, micro-enterprise development loan funds and community development corporation-based lenders and investors (Sairally, 2007.pp.24-25).

In the UK, like many other parts of the Western world, there are financial institutions that cater for the less affluent members of the society who are excluded from mainstream

financial services due to their poor credit rating which makes them very unattractive to commercially risk-averse financial institutions such as banks and building societies.

Community development credit unions and community development financial institutions are the most popular types of such organizations in the UK. In the following paragraphs, I will briefly visit the operations of both of these institutions.

5.2.1 Community Development Credit Unions in the UK

Credit unions are one type of existing financial institution which strives to provide low interest loans to their members. Usually those at the bottom of the wealth ladder become victims of illegal lenders such as loan sharks who charge them extortionate rates of interest. Credit unions provide an indispensable service to the needy borrowers when faced with severe financial hardship and serve a market that the conventional commercial financial institutions would not be at all interested in.

The following extract from the report prepared by the Association of Chartered Certified Accountants (ACCA) gives a comprehensive definition of credit unions.

Credit unions are member-owned, voluntary, self-help democratic institutions that provide financial services to their members. As member-owned, not-for-profit organizations (NFPOs) they are value-driven and committed to serving the financial services needs of disadvantaged communities and individuals, many of whom have been abandoned by mainstream banking. Credit unions have a distinct economic and social philosophy. They are financial, co-operative institutions and their co-operative credentials encompass a number of attributes including open membership and democratic control. Equally, limited returns on share capital, with any surpluses belonging to members, are also indispensable defining features. The role of education, so that members can exercise real

control of their co-operative, is similarly essential to co-operative identity (www.accaglobal.com, accessed November 2008).

Usually credit unions are started and run by volunteers for the benefit of their members. They contribute the start-up capital and regularly deposit small savings to give low interest loans to their members upon request, subject to the official lending procedures of that particular institution.

Credit unions are regulated in many parts of the world including the UK. Here they used to be regulated by the Registrar of Friendly Societies, but this task was taken over by the UK Financial Services Authority in 2002 (Baker, 2008)

Members of the credit unions are usually people from the same local neighbourhood or religious group who are known to each other. Membership of the credit union is gained by paying a membership fee and regularly saving with the credit union. Legally each credit union should have a 'common bond of ownership' which shows the connection between the credit union members as they are usually closely connected in one form or another. Once a member has saved regularly for a qualifying period, he or she is entitled to 1.5 % of the credit union's funds plus their entire savings. It is generally documented that the default rates of credit unions is very low as they usually represent a homogenous group with a common bond. Officers of the credit unions are normally elected at the general meeting by a majority vote.

At the end of each financial year, the accounts department prepares the income and expenditure account of the credit union and the surplus is distributed to the members after adding the reserves brought forward from the last period.

By 30th September 2007, there were 536 credit unions in the UK with 603,474 adult members and assets over £537 billion (www.fsa.gov.uk, accessed December, 2008).

5.2.2 Services by Credit Unions

The major services provided by credit unions include:

1. Cheaper and easy-to-access personal loans for members
2. Cheaper and easier house or business financing
3. Cheaper car and other durables financing
4. Saving schemes with reasonable interest rates, though lower than a bank rate
5. Members benefit from limited liability as their liability is limited to the value of their savings
6. Accumulation of assets as members regularly deposit funds with their credit union.

In some countries credit unions are very advanced and are proving to be a real alternative to conventional banks. For instance, in the USA credit unions are more competitive than banks and provide all types of banking services such as car loans and mortgages. In the UK, however, credit unions are not allowed by law to compete with banks and are not well enough equipped to offer certain services, such as overdrafts, credit cards and cheque-book facilities. This could be due to the small membership number of the UK credit unions compared to other developed countries such as the USA, Canada and Australia, where credit union membership is between 25-50% of the adult population, compared to the UK where it is estimated at 3%. Since UK credit unions are

in their infancy, they are not in a position to compete with the established commercially-oriented banks. Instead, UK credit unions provide basic micro-credit facilities to those at the bottom of the financial ladder who cannot access finance from the mainstream financial industry. The UK government has recently shown a keen interest in encouraging the development of credit unions by allocating significant resources to this sector, however some experts in the field have expressed their concern about the current strategy of creating credit unions whose members are mainly from deprived neighbourhoods and largely funded by governments grants. These commentators are of the opinion that credit union membership should be drawn from a 'cross section of the population' and include the affluent section of the community (McKillop, Ward and Wilson, 2007)

5.3 COMMUNITY DEVELOPMENT FINANCING INSTITUTIONS IN UK

In the UK, the origins of the Community Development financial institutions (CDFIs) sector can be traced back to the 1970s when the co-operative sector pioneered community loan funds and demonstrated their viability. The early and mid 1990s saw a further wave of new innovations in the sector, but the sector is still too small. Research by the New Economics Foundation estimated that in 2002 CDFIs had approximately £250million in capital. This compares to a CDFI sector in the US with capital of approximately £3.4 billion and bank lending in the UK of £1.51 billion to small and micro businesses in disadvantaged areas (www.uksif.org, accessed November, 2008)

As the above facts suggest, the idea of community development has been present in the UK since the 1970's, but the major expansion of community development finance in the UK came as a result of the five recommendations made by the Social Investment Task Force to the government in February 2000 (Sairally, 2007).

According to the UK trade association for community development finance institutions (CDFA) community development finance institutions (CDFIs) provide capital and support to enable individuals or organizations to develop and create wealth in disadvantaged communities or under-served markets.

Further, CDFA states its mission as follows:

The CDFA's mission is to support the development of a thriving and sustainable community development finance sector that provides finance for disadvantaged and underserved communities and, as a consequence, contributes to the increasing prosperity of these communities (www.cdfa.org.uk, accessed November 2008)

According to Sairally (2007) community development financial institutions are in the business of 'social banking' with the objective of community development. Their main concentration is on disadvantaged groups of the community who cannot access the mainstream financial services market.

Again the trade association for community development financial institutions explains how the CDFIs help their clients by ensuring they assist them to cross the bridge, but do not expect them to be dependent on them for their long-term financial needs.

Community Development Financial Institutions(CDFs) provide a vital work for the financially excluded by offering them appropriate financial products that meet their needs at a reasonable cost which is a crucial step towards financial inclusion. Infact they are practical and meaningful alternative to extortionate doorstep lenders. In addition to offering affordable competitive credit facility, they provide financial and other free advice to help their customers get out of poverty (www.cdfa.org.uk, accessed November 2008)

It is worth stressing that providing finance alone is not enough for the financial needs of the market served by the CDFIs and additional services would be necessary to help these groups to move out of the poverty trap and the example cited by the trade association of the CDFIs about the work of one of its member organisation indicated the importance of combining financial services with professional advice and support.

According to information presented by the trade association of the Community Development Financial Institutions (CDFI), the services offered by Fair Finance which is based in East London include the provision of financial services such as personal loans, micro-credit loans and money advice. When a person approaches them for financial assistance, they study the financial and other needs of that client and provide tailor-made advice to that individual. Some of the services offered to these people include money advice, debt counselling, re-payment plans, personal budgeting etc. The money Matters project which provides the above mentioned services closely works with other local housing associations by offering financial advice and support to the tenants of these housing associations. The Community Development Finance Association (CDFA) recommends this type of holistic service as it combines a lot of services under one roof and is a practical and cost effective way of tackling financial exclusion(www.cdfa.org.uk, accessed November 2008).

As the following excerpt suggests, the experience of community development financial institutions in other countries, like the USA, has been very encouraging as they play a key role in overcoming financial exclusion. However, these institutions are still at their infancy stage in the UK and they need to develop further to bring about the much-needed community development initiatives.

Community Development Finance Institutions (CDFIs) have played an important part in attempts to regenerate such communities, but in the UK they do not currently operate on a large enough scale. Compared with the United States, the UK CDFI sector is small, heavily loss-making and patchy in its operation (www.cdfa.org.uk, accessed November 2008).

Community development organizations are another type of micro-credit and financing institution whose aim is to provide access to finance for businesses and individuals who are unable to secure finance from the mainstream financial services sector such as commercial banks.

Community development financial institutions, in theory at least, meet the British Government's commitments of promoting enterprise for all and access to financial services, as confirmed by the then Economic Secretary to the Treasury Ivan Lewis in his foreword to the third publication of "Inside Out", the state of the community development.

I am very pleased to see significant growth and development in the sector, and recognize the valuable contribution that CDFIs are making to the Government's commitments to promoting enterprise for all and access to financial services. I am sure that this productive partnership will continue in the years ahead (Lewis, 2008).

Community development institutions advocate 'social entrepreneurship' by encouraging investors to invest in community development finance institutions which will achieve the best of both worlds as some advertisements posted on the website of community development finance associations suggests investing in community development financial institutions will bring long term benefits to those outside the financial services industry and will give financial returns to the investor instead of giving charity and foregoing all their capital.

Is it really possible to mix 'doing good' with 'doing well'? It would seem so. Today, there are more and more opportunities for people and businesses to invest in community development finance. What's more, many of these investments are eligible for a generous tax relief.

Investors can 'do good' by increasing access to finance for individuals, businesses and organizations who need it most, while securing a financial return through the community investment tax relief (CITR) (www.cdfa.org.uk, accessed November, 2008).

As the above extracts suggest community development financial institutions do try to raise finance from ethical and socially responsible investors who would like to combine their financial wellbeing with the noble objective of helping those who cannot access finance from profit-maximizing commercial banks.

Social enterprising is seen as an innovative way of alleviating poverty by many community development professionals, including Professor Mohammed Yunus, Founder and Managing Director of Grameen Bank. He has defined the term of social entrepreneur, stated the required ingredients to become a successful social entrepreneur and called for non-market social entrepreneurs to strive to move to the right side of the cost recovery scale as he put it and strive to convert to social market what he calls the 'market compatible social entrepreneur' which in his opinion is the future of the world.

Professor Yunus is of the opinion that anyone involved in a social course is a social entrepreneur regardless of how small or big the task is. What unites them all is their concern for a cause beyond their personal gain. Professor Yunus strongly believes that social entrepreneurs who are self-sustaining by recovering their cost instead of relying on

external support are the future of alleviating poverty and increasing financial inclusion for all. He gave a detailed explanation of the various types of social entrepreneurs by stating that social entrepreneurs can work within scale ranging from zero to cost recovery to 100 percent cost recovery. He also said that social entrepreneurs can even exceed this point by making financial surpluses to be reinvested in the business as the main objective of social ventures is not for profit maximisation. Professor Yunus calls these entrepreneurs 'market compatible or sustainable social entrepreneurs' and says that if they continue on this path, they eventually become 'legitimate players in the market' which means they can attract a lot of investment from the market by accessing what he calls 'the trillions of market capitalization money' to fulfil their noble mission of tackling financial exclusion and poverty. However, Professor Yunus commends the job that all social entrepreneurs undertake be they market compatible social entrepreneurs or non-market social entrepreneurs who depend on subsidies and philanthropy to carry out their crucial and humanitarian work. Professor Yunus stated that it is a pity that the work the latter group can deliver is largely limited by the amount of donated money they can access which is very unreliable and can disturb organisation plans due to the uncertainties always attached to such finance. He strongly advises all social entrepreneurs to move to right of the scale and become sustainable social entrepreneurs as in his opinion the answer to ending poverty lies in the hands of market compatible social entrepreneurs. ([www.dac-academy.org](http://www.dac.academy.org), accessed October 2008).

Professor Yunus is of the opinion that since non-market social entrepreneurs are older and more experienced than market social entrepreneurs, the two should join forces and create a strong coalition to achieve their objectives.

He also calls for the conversion of non-market social entrepreneurs to market social entrepreneurs by working hard to reach a stage of self-sustainability, while meeting the financial services needs of their clients. He also recognizes that this conversion needs to be supported at a global level by providing the required support to these institutions and equipping them with the necessary skills to achieve this status.

Professor says that the world needs to recognise the importance of social entrepreneurs and they should be welcomed as 'heroes of our economic endeavours' instead of treating them as 'misfits or freak characters' in an economic fiction. He is suggesting that if the business world continues to be led only by profit-driven entrepreneurs, things will get worse for all and he is proposing that social entrepreneurs should assume more responsibility and the lead as to create a business culture that takes into account the social aspect and advancing f the common good while making returns for their investors.

Professor Yunus is an obvious critique of profit-based private sector which he says always conflicts with the 'the pro-poor, pro-women, pro-environment agenda' and it is time the world should have an alternative to this familiar private sector as he put it. In Professor Yunus' opinion the world can not cope with 'the problem of poverty within the orthodox of capitalism as it is preached and practised today' and according to him, the answer is the development of a social conscious private sector led by social entrepreneurs. He praised the British Government for introducing an incentive to encourage social entrepreneurship by allowing these investors to gain tax relief for investment income (www.da-academy.org, accessed October 2008).

In the UK, one could say that there are more non-market social enterprises than market social ones as the major source of funds for community development financial institutions is government grants and philanthropic donations, with some investments made by ethical and socially responsible individuals

There are 71 members of the association of community development financial institutions in the UK, although they are far less developed than in the USA, community development financial institutions have financed 15, 000 businesses in the UK.

5.4 SERVICES PROVIDED BY CDFIS

According to Inside Out, the only official publication on the community development finance sector in the UK, the features of CDFIs include:

1. CDFI loans to businesses which include working capital purchase of equipment, purchase/renovation of buildings, marketing/advertising and gap financing.
2. CDFI loans for individuals include household or individual purchases, debt consolidation and home improvements.
3. Loans vary from as little as £50 to as much as £750,000. Average loan sizes in 2007 were £8,520 for micro-enterprises, £28,000 for small business, £66,500 for social enterprises and £635 for loans to individuals.
4. Fewer CDFIs are offering additional business support or money advice services although they continue to offer significant levels of advice during loan inquiry and application.
5. CDFIs are diversifying into a broader range of personal financial services and back office services for other CDFIs.

6. They are involved in establishing strong relationships with the local community to gain their trust and thereby reduce misunderstanding and default

7. They encourage and advocate more participative, user-led and social oriented type of project financing (<http://www.cdfa.org.uk/documents/InsideOut05Keyfindings>, accessed on January 2009)

One of the appealing features of community development financial institutions is their local representation as some of the board members would be from the local community. This is very useful as having board members who are very aware of the needs of the local community allows the most appropriate services to be provided to the community and the trust of the local community to be gained.

Looking at the services provided by some community development financial institutions in the UK may provide us with a better understanding of the activities of these institutions and I will therefore give a brief overview of the activities of some of these organizations.

5.4.1 Street (UK): Learning from Community Finance

This is one the earliest organizations to provide sustainable community development finance in the UK. Street (UK)'s original aim of engaging in large-scale lending operations has not materialized, but has provided some good lessons over the years, according to an evaluation report carried out by the New Economics foundation and funded by the Esmée Fairbairn Foundation which is presented below:

Street (UK) has shown that there is some unmet demand for finance among the self-employed and very small businesses. It has supported unbankable

transitional or embryonic businesses in some of the UK's most deprived areas.

Street (UK)'s services are highly valued by its clients, particularly its hands-on friendly approach to credit assessment. Its loans have often been pivotal in helping businesses secure new opportunities and increase their turnover, profit and employees.

Both the levels of demand and of client credit-worthiness are lower than Street (UK) originally anticipated

The key findings of this briefing are:

1. It has proved difficult to build a financially sustainable organization based solely on lending to micro-entrepreneurs. Diversifying products and services and building partnerships may also be necessary to achieve financial self-sufficiency.
2. Micro-entrepreneurs often need a variety of financial and non-financial services, not just business loans.
3. More work is needed to develop comparable performance measures, increased transparency and an open, learning culture in the sector if the performance of community finance organisations and the success factors are to be better understood.
4. Long-term investment is required to build community development finance institutions. Experimentation and innovation, such as that of Street (UK), is needed to better understand markets and develop viable business models. A sense of shared risk and long-term engagement are vital ingredients for the successful funding of community finance initiatives.
5. A micro-finance model which works overseas may not transfer effectively into a different environment. Great care is therefore needed when replicating a model in such circumstances (www.esmeefairburn.org.uk, accessed December 2008).

It is obvious from the findings presented above that although community development financial institutions are highly valued by their less affluent customers, maintaining them

simply on the basis of lending to the micro-enterprises may not be as easy as it sounds. The report suggests that a lot more needs to be done if community development financial institutions are to succeed. It was also interesting to note that simply copying a model that works in another environment might not be the best answer as basic ingredients of the two environments may not necessarily match.

Since Steet (UK) is not *Shari'a*-compliant, I would not expect many Muslims to be benefiting from their services, although I do not have any data that supports our argument.

As I have noted so far all the existing credit unions and micro-financing institutions in the UK are conventional and therefore would not appeal to the less affluent *Shari'a*-observant Muslims despite their dire need for financial services to get out of the vicious cycle of social and financial exclusion. However, few *Sharia*-compliant micro-financing initiatives have been pioneered by some of the community development financial institutions as I will learn in the coming section.

5.5 PROVISION OF *SHARI'A*-COMPLIANT MICRO-FINANCE IN THE UK

As Islamic micro-financing is not available even to those who deserve it most, i.e. the poor Muslim masses in Muslim countries, it would be odd to expect it to be flourishing in the West, including Britain where Muslims remain a relatively small minority. However, having this type of provision in a country like the UK is not unreasonable given its societal importance, as preserving one's basic belief and culture while tackling issues such as social and financial exclusion is highly commendable as long as it is achievable with a reasonable cost.

The fact remains though, that as I explained earlier, most of the micro-financing schemes available in the UK are not *Shari'a*-compliant. However, certain initiatives have been taken by some the community development financial institutions and I will look at the activities of these institutions to examine the impact they have had so far on the target community.

5.5.1 Ansar Finance Group

This is a community-based *Shari'a*-compliant financing scheme, started in 1994 to provide interest-free finance, investment and *Shari'a*-compliant mortgages to members of the organization (www.ansarfinance.com, accessed November 2008). It runs the property share scheme through its sister-firm Ansar Housing limited which is unitized to provide *Shari'a*-compliant home financing to its members (Ahmed, 2008)

The biggest challenge facing Ansar Finance Group is its limited membership which restricts its capital base. According to Ahmed, (2008) the total investment held by the Ansar group for home-financing purposes was just £400,000 which clearly shows their lack of financial strength.

5.5.2 Business Finance Northwest

The Business Finance Northwest community development financing institution has recently developed a new product called 'Northwest ethical finance facility' and, according to their leaflet, it is:

Specifically designed on Islamic financial principles to meet religious, cultural, social and financial needs in a Shari'a compliant way which allows you generate cash for a business start-up or expansion without compromising your faith (Northwest ethical finance facility brochure)

The brochure explains that this facility is for business purposes only and is open to both Muslims and non-Muslims provided the business being financed meets the set criteria and does not involve any of the prohibited items such as alcohol, tobacco and the sale of pork. It is further explained in the leaflet that the mode of finance applied is *Murabaha*(cost-plus financing). The finance facility is between £5,000 and £15,000 depending on the stage of development of the business seeking the finance. Once approved, the disbursement will be made by the Islamic Bank of Britain, since the facilities offered by IBB are approved by *Shari'a* scholars.

Applicants have to go through the usual application process and the decision to offer the facility will be subject to various checks. Once approved, the applicant will be asked to open an appropriate account with the Islamic Bank of Britain to process the disbursements and the repayment.

This facility has been in operation for twelve months as one member of staff confirmed, but no one has yet applied for it. According to this officer, the main reason why no-one has applied for it yet is that people are not convinced about the authenticity of this product. This is a real cause for concern as it seems that the problem of *Shari'a* compatibility is recurring across the board and it is one of the major obstacles limiting the up-take of *Shari'a*-compliant services in the UK

5.6 SUMMARY

The main objective of this chapter was to familiarize ourselves with the financial inclusion initiatives currently operating in the UK. Another important aim was to understand the services provided by UK micro-financing institutions and whether the services provided by these institutions are extended to less affluent UK Muslims as their predicament is exacerbated by the extra barrier of observing *Shari'a* in their financial dealings. It started with a brief introduction to the financial inclusion initiatives followed by how micro-finance works and a relatively detailed description and analysis of the community development finance sector in the UK.

Despite the existence of fairly developed community development financial institutions in the UK, none was *Shari'a*-compliant. This is alarming given the fact that the number of UK Muslim who could be classified as disadvantaged is huge. UK Muslims represent the largest ethnic minority group in the UK and as I have explained earlier, many of them do not access financial products due to their concern about interest which is prohibited by the *Shari'a*. This is especially so of the less affluent who are normally more religious and *Shari'a* observing than their affluent counterparts as I have also discussed in previous chapters. Equally alarming is the fact that initial attempts to introduce *Shari'a*-compliant micro-financing did not work. This could be due to the way in which they were structured, the channels used and the absence of community involvement at the planning stage.

Chapter 6

RESEARCH DESIGN & METHODOLOGY

6.1 INTRODUCTION

Any account, report or other piece of serious factual writing is intended to take effect on someone at some time. It must consequently meet that someone's demands. Those demands amount to this: Is the account true, reliable, complete? Is it clear, orderly, easy to grasp and remember? All the devices and methods that the researcher combines under the name of technique exist to satisfy these requirements (Barzun & Graff, 2003.p.15).

Like any other researcher, I am very concerned about the reliability, completeness and the clarity of my research findings and results and therefore have to employ the most appropriate methods and devices to achieve the desired outcome.

In the coming paragraphs, I will review the literature on research design/methodologies and the merits of each. I will also briefly explain the research questions, research hypothesis, sampling strategy, data collection and the chosen analytical tools, with the objective of justifying the selection of survey questionnaire and semi-structured interviews as the most appropriate and relevant data collection methods. A final copy of the survey questionnaire and the semi-structured interview is presented in the Appendix section of the thesis for further perusal and reference.

6.2 THEORY ON RESEARCH DESIGN AND METHODOLOGY

Research design is simply the plan of action of the study. Just as an engineer prepares a plan prior to the actual construction of an object, or an artist sketches and draws lines

before drawing the real picture, the researcher is also expected to have a well-defined plan that guides him/her throughout the research process (Rao,1994.p.1). The main objective of the research design is to ensure that the researcher keeps track of his/her actions and stays the course as he/she may get lost in the daunting task of the research process. Some commentators define research as the logical and systematic planning and directing of a piece of research (Rao, 1994.p.1). Others have defined research design simply as the art of simplifying the research process by dividing the task into smaller, more manageable parts. According to Robson (2007.p.79) "Design is concerned with turning research questions into projects".

It is obvious that dividing the research questions into more specific questions that can be explored in more detail is extremely useful and that is why I have decided to divide each of my main research questions into two or more sub-questions. Both the survey questionnaire and the semi-structured interviews were devised to answer the sub-questions, which would then lead to the answer of the main research questions. This has greatly enhanced the clarity of the questions which should contribute immensely to our overall objective of finding relevant and reliable responses to each of our research questions.

Having a clear, unambiguous plan is one of the key determinants of the quality of the research outcome (Moore, 2000.p.1).

Having realized the importance of having a proper research design that would act as the blueprint for the collection, measurement and analysis of data, I decided to set out a clear plan for the field work and therefore started by asking myself the following questions:

1. What are my research questions?

2. Who are my respondents?
3. What is the best way of approaching them?
4. What data do I need to get meaningful responses to my research questions?
5. What would be the most appropriate research instruments to employ in collecting the required data?

According to Bordens and Abbott (2007.p.54), one should decide one's research design as soon as the research questions have been formalized as this is the next most important task facing the researcher. Research design is greatly influenced by the resources available to the researcher and the chosen design should be realistic within the prevailing research constraints. The most common research constraints include money, time and expertise (Moore, 2000.p.10).

Hence, another critical question I raised at the beginning of my research design was:

- What are the time, cost and expertise constraints that I should take into consideration in devising the research design and methodology?

This was very relevant and a critical question in my case as I was working abroad and had to realistically evaluate the pertaining research constraints including time, cost and expertise constraints. Working abroad while carrying out the research was expensive in terms of the cost of travel, as I was meeting my supervisor regularly for advice and guidance.

I thought seriously about this matter at the beginning and made sure that the budget available to me was sufficient to enable me to conduct my research in an efficient manner. Also, the fact that I was working during the research project meant that I had to

make some serious sacrifices in order to finish the thesis on time in that I had to substantially compromise on my social life for the sake of achieving my goal of completing my research within all the pertaining constraints.

6.2.1 Types of research design

As I have touched upon in previous sections, research design concerns the various things that one should keep in mind while carrying out the research project (Robson, 2007.p.80).

The components that require due consideration in this regard include: the purpose of the study, the relevant theory to the topic under consideration, the research questions to be addressed, the methods or best techniques for collecting the required data and the sampling strategy that will be adopted.

Research design can be divided into various categories depending on the objective of the categorization criteria, as each researcher has to prepare his/her own research design depending on the specific nature of the study. As the type of research design selected is determined by the type of research question, it makes sense to briefly introduce the various types of research based on the fundamental objective or purpose of the research study. Research has been classified as Exploratory, Descriptive, Diagnostic or Experimental (Rao, 1994.p.96).

As explained in chapter one, my research can be classified as both exploratory and descriptive. Research is also at times classified by the research discipline it falls under which makes mine a social research as it falls under the area of Social Sciences.

Social research designs are broadly divided into two major categories, namely fixed and flexible designs. In the following paragraphs, I will briefly introduce and discuss each of these designs and see which one is more appropriate for my research project.

Fixed design is usually employed in social research designs where the phenomenon of interest is quantifiable, although there are no hard and fast rules about its applicability in qualitative studies. One of the distinguishing characteristics of fixed design is the strong-linkage between the theory and the research and therefore it is known as a theory-driven type of research (Robson, 2007.p.164).

Flexible designs, on the other hand, are usually employed in qualitative research where the study is framed within the assumptions and characteristics of the flexible approach to research (Robson, 2007.p.165)

As my research involves both quantitative research represented by the survey questionnaire and qualitative research represented by the semi-structured interviews, a mixture of both designs is more appropriate than concentrating on either one of them and therefore the chosen research design in this research is mixed research design. This was selected as it is the type of research design that combines both quantitative and qualitative data collection and analysis in many phases of the research process. (Cresswell and Plano Clark, 2007.p.5)

6.3 RESEARCH METHODOLOGY

Generally speaking, research methodology refers to the method or methods of collecting; analyzing and reporting data. In other words, it is the framework in which the researcher

works to collect, analyze and interpret information in order to find satisfactory and meaningful answers to his/her research questions.

Using the analogy of a detective investigating a case, the researcher should decide on the most suitable method of collecting data for the subject under study.

A detective may choose to watch the behaviour of the suspect or question them by using various interrogation methods. Similarly, the researcher may use observation, interview or questionnaires (Robson, 2007.p.223).

The selected methodology will mainly be influenced by the research design and objectives. No doubt researchers being humans may also have specific biases and some may prefer qualitative over quantitative approaches or vice versa.

Generally speaking, a research methodology that combines two or more research methods gives better interpretation as the information missed by one method might be captured by the other and thus an enhanced and integrated result may emerge from the analysis.

The complexity of our research problems calls for answers beyond simple numbers in a quantitative sense or words in a qualitative sense. A combination of both forms of data can provide the most comprehensive analysis of problems (Cresswell and Plano Clark, 2007.p.13).

However, after substantial reading and careful planning, I reached the conclusion that mixed research is the most suitable method for my research and the two most relevant methodologies are survey questionnaires and semi-structured interviews.

In the next section, I will briefly visit some of the literature on both methods and their relevance to our research questions.

6.3.1 Survey Questionnaires

Surveys are very common and although many are undertaken by commercial organizations in the interest of marketing some products or services, a substantial proportion are academic, with the objective of explaining a social phenomenon or finding out what is going in our society (Robson, 2007.p.228). However, both share a common interest in getting the assessment right as the reliability of resulting information depends on the appropriateness of the tools used and how well these methods are applied.

Survey technique is the collection of primary data about subjects and involves the selection of a representative sample of the population under study, through the use of a questionnaire ([www.ryerson.ca-majoppe/research](http://www.ryerson.ca/majoppe/research), accessed November 2007).

It is very popular since many different types of information can be collected including attitudinal, motivational, behavioural and perceptive aspects of the subject being studied.

This methodology was selected for this study as it involves collecting primary data about experiences, views, the attitudes and the access of the less affluent UK Muslim to the *Shari'a*-compliant financial products on offer. It will employ a representative sample of the population under study. For instance, UK Muslims will be categorized according to ethnicity and a sample will be randomly selected from each ethnic group to make it as representative as possible.

If properly designed and implemented, surveys can be an efficient and accurate means of determining information about a given population. Results can be provided relatively quickly and, depending on the sample size and methodology chosen, they are relatively inexpensive. Survey questionnaires have many advantages over other methods of data collection.

According to Robson (2007.p.269) the advantages associated with the use of survey questionnaires include:

1. They provide a relatively simple and straightforward approach to the study of attitudes, values, beliefs and motives. This is very important in our study as the research involves extracting information on all the described variables
2. They may be adapted to collect generalizable information from almost any human population
3. A high amount of data standardization is achieved

However, surveys also have a number of disadvantages which must be considered by the researcher in determining the most appropriate data collection technique and avoiding the risks involved in that particular method of investigation (Robson, 2007.p.269). Below are some of the drawbacks of the survey technique:

1. The validity of the responses may be compromised by the favourable image a respondent may wish to express (response or bias error)
2. Sometimes respondents may shy away from giving crucial information due to the sensitivity attached to the topic
3. Inability to answer the question could also affect the response rate and reliability
4. The interviewer can inadvertently influence the response
5. The interviewer can introduce bias through facial expressions, body language or the way they are (interviewer error or bias)
6. The response rate could have a dramatic detrimental effect on the results

7. The chances of following up are almost impossible if delivered by post

6.3.2 Semi-Structured Interviews

This method typically involves asking questions and receiving answers from respondents. Others have defined it as “a conversation for a purpose” (Robson, 2007.p.271). “A commonly used typology distinguishes between structured, semi-structured and unstructured interviews. The different types can, to some extent, be linked to the depth of response sought (.Robson, 2007,p.282). In other words, interviews can be divided or classified according to where they fall on the continuum of formality.

The two extremes are the highly structured interview, which simply amounts to the usual questionnaire discussed earlier in the chapter and the highly unstructured interview, where the respondent is not limited at all and can talk freely about the subject with minimal restriction and intervention from the interviewer.

Between these two extremes comes the semi-structured interview which has certain restrictions and a degree of flexibility as follows:

1. Questions are predetermined, but the order can be modified to suit the respondent
2. The wording of questions can be altered and more explanation provided if the interviewee so prefers
3. Questions that are inappropriate to a particular interviewee can be omitted or additional ones included (Robson, 2007.p.260)

In general, this method may be used in both qualitative and quantitative research and is useful when the interviewer wants to gather data about the background and experience of the interviewee/s. However, according to Robson (2007) semi-structured and unstructured interviews are widely used in flexible qualitative designs. Also, according to King (1994) the circumstances in which a qualitative research interview is most appropriate are:

1. Where the study focuses on the meaning of phenomena particular to the participants
2. Where the individual perceptions of processes within a social unit-such as a work-group, department or whole organization are to be studied using a series of interviews.
3. Where quantitative study has been carried out and qualitative data are required to validate particular measures or to clarify and illustrate the meaning of the findings.

This study no doubt falls into this category and that is why semi-structured interviews will be employed by the researcher to collect the qualitative data. Some of the advantages semi-structured interviews have over other interview techniques include:

1. Giving the interviewer the opportunity to probe further into a subject to extract more details from the interviewee
2. Granting the interviewee the opportunity to explain the subject matter in depth
3. Allowing the interviewer to expand on the subject matter based on the expertise and the wisdom posed by the interviewee
4. Enhancing data validity as the interviewer is presented with the opportunity to check accuracy with the interviewee before leaving the scene.

However, all interviews including the semi-structured one have some common disadvantages such as:

1. In general they are time consuming, especially if the questions are many and long
2. They require careful preparation such as getting the necessary permission, reaching the interview venue and confirming other arrangements which could prove to be a daunting task
3. Analysis of interview data may be challenging as the data collected usually contains non standard responses
4. The interviewer may influence the interviewee's response which may compromise the reliability of the information thus collected.

The above are some of the disadvantages of the interview technique of data collecting. However, the researcher will try to minimize the effect that these drawbacks may have on this research.

6.4 THE RELEVANCE OF THE SELECTED METHODOLOGIES TO MY RESEARCH QUESTIONS AND HYPOTHESES

Having visited the various research methods and evaluated the pros and cons of each, I will now be looking at the most suitable research design for this dissertation.

The aim of the research project is to gather information about the research questions which have been presented in chapter one.

The first research question and its sub-questions aim to shed light on how well conventional UK financial systems meet the financial services needs of less affluent UK Muslims.

The objective is to estimate the level of faith-related financial exclusion which is ignored in most research on the subject of financial exclusion.

As I have explained in Chapters Two and Three, financial exclusion is one of the key components of social deprivation and finding out how significant the level of faith-related financial exclusion is could possibly contribute to the objective of finding a solution for this problem.

I hope the end product of this research will be valuable to both policy-makers and the UK financial community at large as well as to the pioneers of *Shari'a*-compliant financial products in the UK. Understanding the level and magnitude of religion-driven financial exclusion among the less affluent UK Muslim community may answer some of the questions of why certain communities, such as the Somali community which is one of the most entrepreneurial ethnic minorities in UK, are lagging behind in accessing the UK financial services market.

The second question and its sub-questions are also aimed at enlightening us on how well aware the less affluent UK Muslim communities are about the existing *Shari'a*-compliant financial products and what their attitudes are towards these products. How much does their perception of the available *Shari'a*-compliant financial products influence their decisions on accessing such products?

The aim is to find out if there is a link between the level of awareness and the level of access. Also, understanding attitudes of less affluent UK Muslims towards existing

Islamic financial products is very important in explaining the much-talked-about limited take-up of the existing *Shari'a*-compliant products such as home purchase schemes which have been around quite a while, but are still struggling to gain the confidence of the UK Muslim community as confirmed by earlier studies on the subject.

6.4.1 Research Hypothesis and Characteristics

A hypothesis is a tentative generalization, the validity of which remains to be tested. In its most elementary stage, the hypothesis may be a mere hunch, guess, imaginative data, which becomes the basis for action or investigation (Rao, 1994)

As the above statement suggests, most research proposals start with a hypothesis which triggers the research itself. Using the analogy of a criminal case, the jury conducts a hypothesis test to decide on either of two hypotheses based on the basis of the evidence presented by both the prosecution and the defence. The first one is called the null hypothesis represented by H_0 which means the defendant is innocent and the second hypothesis is called the alternative hypothesis represented by H_1 which means the defendant is guilty. The final decision will be reached after all the evidence of both parties have been carefully analyzed and interpreted by the jury (Keller & Warrack, 2002, p.262).

Similarly, the research hypothesis will determine the parameters of the research questions, therefore methods employed in testing the hypothesis should be relevant to both the research questions and the research hypothesis. Below is a summary of my research hypothesis

1. Less affluent UK Muslims are financially excluded from the mainstream UK financial system
2. The socio-economic structure and religiosity of less affluent UK Muslim communities play a significant role in the level of financial exclusion suffered by these communities.
3. Less affluent UK Muslims prefer *Shari'a*-compliant finance to conventional finance under normal circumstances
4. The introduction of *Shari'a*-compliant financial products, such as home financing schemes has not significantly improved the level of financial inclusion among less affluent UK Muslim communities.
5. The major reason for the low take-up of the current *Shari'a*-compliant products on offer in the UK is due to profound scepticism about the *Shari'a* compliance, perceived or real expensive pricing and lack of awareness about such products.

Based on the above-mentioned research hypothesis and the research question presented earlier, this research has its own unique features due the particular subject it is investigating and these characteristics can be summarized as follows:

1. It will try to examine the level of faith-related financial exclusion among the less affluent UK Muslim community.
2. It will try to collect the views of the less affluent UK Muslim community regarding the extent to which the conventional UK financial system has restricted their access to financial products due to their faith and whether or not their expectations from the *Shari'a*-compliant financial products currently on offer in the UK have materialized.

3. It will conduct semi-structured interviews with the academics, professionals and practitioners of Islamic finance in the UK and in the UAE to find answers to the research questions

4. It will examine if there is a gap between the *Shari'a*-compliant financial products on offer in the UK and the financial services needs of the less affluent UK Muslim community and how that gap could be bridged.

Based on the research questions and the research hypothesis, I had to select the most suitable methods to enable me to get reasonable answers to my research questions. Methodology is important when carrying out research because it is crucial to choose a suitable method for the research questions and the circumstances under consideration. Likewise, types of data vary and serve different purposes in different situations. The research method I have chosen is therefore tailor-made to answer the two key research questions and their sub-questions that have been tackled in previous paragraphs.

Chapter One of the theses has also clearly demonstrated the objectives of the main and sub-questions as each question and its secondary questions are phrased to answer a particular question. The selected methods for this research are survey questionnaire and semi-structured interviews. Each of these tools has been chosen on merit with specific objectives in mind. I will briefly introduce these objectives in the next section.

6.4.2 Objectives of the Survey Questionnaire

As described in previous sections of this chapter, the research questionnaire was developed with the objective of finding relevant and satisfactory responses to the main research questions and their sub-questions. The questionnaire will be distributed to a

randomly-selected sample of the target population. The sampling strategy and the specific steps of collecting the data will be tackled later in the chapter. In order to explain what I hope to achieve from the survey questionnaire the specific objectives of this data collection tool can be summarized as follows:

1. To describe the socio-economic profiles of less affluent UK Muslim communities, such as ages, levels of education, income etc
2. To assess the level of financial access (both conventional and *Shari'a*-compliant) enjoyed by less affluent UK Muslims
3. To estimate the level of awareness of less affluent UK Muslims about existing *Shari'a*-compliant financial products and how significantly this level of awareness has influenced their access to these products.
4. To assess how significant the connection between the level of awareness of existing *Shari'a*-compliant products and the level of accessing these products is
5. To assess the gap between the current *Shari'a*-compliant financial products on offer in the UK and the financial services needs of less affluent UK Muslims.
6. To understand the attitudes of less affluent UK Muslims to the *Shari'a*-compliant financial products on offer

6.4.3 Objectives of the Semi-Structured Interview

I interviewed the UK-based Islamic banking practitioners and scholars. As this is a limited population I have covered most of the population. However, the two groups are different

in terms of expertise and specialization and below are the main objectives of interviewing each:

What I need from the UK-based Islamic banking practitioners:

1. To learn about the products they offer in the UK market
2. To find out about their marketing strategy and how they plan to create the necessary awareness of their products in the UK
3. To find out their experience to-date in serving the UK Muslim community in the field of financial services
4. To hear their views regarding the response and attitude of the UK Muslim population to their products
5. To find out if they have any evidence to suggest that the introduction of *Shari'a*-compliant products has enhanced the level of financial inclusion of the less affluent UK Muslim community.

The right responses to the above questions are critical to this study and the bankers who deal with *Shari'a* compliant products in the UK are thought to be the best to give such answers as they are the gatekeepers for these products. Hence, they have been selected as the interviewees for this study.

The second group that I interviewed are the academics in the field of Islamic finance and banking. The desired outcome after interviewing them is as follows:

1. To learn what they think of the success/shortcomings of Islamic banking in the UK so far

2. To find out what they think of the role played by Islamic finance in tackling financial exclusion in the UK and its achievements so far

3. To establish what the institutions offering *Shari'a*-compliant products should do to contribute to the reduction of financial exclusion in the UK

Similarly, the academics in the field of Islamic finance and banking are always conducting research and publishing articles on the subject and supposedly therefore are the guardians of knowledge in the field. The researcher believes that drawing on the vast amount of knowledge available to these scholars is vital for gathering reliable data for this thesis and therefore has decided to interview them. As mentioned earlier, the drawback is that the number of people who can be classified as an 'academic' in Islamic finance is globally very limited and the UK is not an exception. However, the researcher will not confine his interviewees to the UK, but will include anyone who can contribute to this objective.

Both the survey questionnaire and the semi-structured interviews are developed from this perspective and are expected to achieve their objectives as the samples presented in appendix (A) of the thesis demonstrate.

6.5 VALIDITY AND RELIABILITY OF THE DATA

Data is only useful if it actually measures what it is supposed to be measuring. The concept of validity, therefore, refers to the extent to which the data we collect gives a true measurement / description of social reality (www.sociology.org.uk, accessed November 2007).

The validity of the data is crucial, regardless of the method used to collect such data, as invalidity renders it worthless. The validity of the questionnaire largely depends on how

accurate and honest the responses given by the respondents are. Measuring accuracy and honesty is a difficult task and no one can give absolute assurance on it. However, in my research I have tried my best to minimize the risk of compromising the validity of my data by personally completing the questionnaire after fully explaining what the questions actually mean and thus reducing the possibility of errors resulting from lack of understanding and ambiguity.

Having an introductory paragraph at the beginning of the survey questionnaire and personally assuring the interviewees of the semi-structured interviews of the anonymity of both their identity and personal responses contributed to the validity of the data collected.

Reliability is another vital characteristic that every sound research should possess and it refers to the consistency and the repeatability of the same results over time. In simple terms, this means that if the research was to be carried out by other independent researchers employing the same methodology and strategy, they would arrive at a similar conclusion, all other things being equal.

If a method of collecting evidence is reliable it means that anybody using this method, or the same person using it at another time, would come up with the same results. The work could be repeated and the same results gained (www.sociology.org.uk, accessed November 2007).

The key components of data reliability, according to McNeil (1996) in his article "Research Methods", include consistency, precision and explicability of results which suggests that the researcher should be consistent when collecting the data and should aim for a high degree of precision and accuracy, which of course will be subject to many

factors outside the control of the researcher. However, the researcher should try and minimize bias in the data collection process. I hope to apply all the sound advice given in the preceding paragraphs in my data collection process. I will try my best to be consistent, accurate and objective throughout the research process, difficult though it may prove to be.

In essence, the reliability and the validity of data will be enhanced by the ability and the skills of the researcher in predicting potential bias and errors and eliminating them at an early stage. An obvious example is the danger that the questions presented in the questionnaire or the way the interviewer is dressed may affect respondents, leading them to distort their responses or abstain from giving answers. The onus is upon the researcher to foresee these problems and deal with them accordingly and that is exactly what I will do to ensure that the reliability and validity of my data is beyond reproach.

6.6 STAGES OF CONDUCTING THE FIELDWORK

In this section I will explain the steps that the researcher will take to conduct the fieldwork for both the survey questionnaire and the semi-structured interviews. The following section will outline how the researcher will collect the primary data for the research. The objective is to show the reader the road map of the primary data gathering and analysis process. Primary data collection has been divided into three major stages which are:

1. Development of the survey questionnaire and the semi-structured interviews
2. Collecting the primary data from the respondents and interviewees.

In the case of the survey questionnaire this phase involves finding the right sample for the questionnaire; therefore the sampling strategy to be adopted by the researcher is

briefly explained. Piloting both the survey questionnaire and the semi-structured interviews will also be touched upon at this stage.

3. Analysis of the primary data collected by means of the survey questionnaire and the semi-structured interviews.

6.6.1 Development of the Survey Questionnaire and the Semi-Structured Interviews.

Developing a survey questionnaire that enables the researcher to collect relevant, reliable and valid data to answer the research questions is extremely crucial in the research process. When developing the survey questionnaire the researcher should be guided by the research questions and the questionnaire should be designed so as to generate the right responses for the research questions (Robson, 2007).

This was true in my research as all the questions were carefully selected after giving due consideration to their relevance to the research questions, as the survey questionnaire presented in Appendix (A)clearly shows.

The development of the final survey questionnaire has been subject to various stages of refining and modification, including initial designing and pre-testing through pilot questionnaire until the final questionnaire was written up.

Similarly, the semi-structured interviews were written with the specific objectives cited in previous sections. Like the survey questionnaire, the semi-structured interview was subject to rigorous refinement and enhancement until a final satisfactory product was derived.

6.6.2 Piloting the Survey Questionnaire and the Semi-Structured Interviews.

The draft questionnaire is best pre-tested informally, initially concentrating on individual questions. Colleagues, friends and family can usually be cajoled into reading them through and providing (hopefully) constructive comments on the wording. Are the questions clear, simple, unambiguous? (Robson, 2007).

Piloting is very important as it highlights any shortcomings before the document is fully launched. The objective is to check the overall presentation, clarity and reasonableness in terms of the length of the questions and the depth of the information sought.

As I touched upon earlier, I am determined to enhance the reliability and the validity of my primary data as much as possible. On this basis and with the knowledge that lack of reliability and validity would render the data worthless, I had to explore all the possible avenues of enhancing the quality of my data, especially its reliability. To be reliable, the survey questionnaire must be consistent which means the questions have to be answered by different respondents the same way each time. Some commentators suggest the practice of comparing the answers that the respondents give in one pilot study with the answers given in another pre-test (www.writingcolostate.edu/index, accessed December, 2007). Validity of the data is usually determined by how well it measures the concepts it is intended to measure. Again this can be tested by comparing how different respondents answer in different settings (www.writingcolostate.edu/index..

Acting upon the above-mentioned advice and the sound guidance of my supervisor, I randomly selected a small sample to test the reliability and the validity of the questionnaire. The respondents were asked to answer the questions and were informed that the objective of this study was to obtain their opinion on the reliability and the validity of the questionnaire. This is known as 'the participating method' as the researcher clearly

explains to the respondents that the exercise is not for real, but rather a preliminary which allows the interviewee to respond with the right mindset.

The participating respondents' feedback was then incorporated into the questionnaire and a further random sample then selected and the amended version of the questionnaire was distributed to the second selected sample. This time the respondents were not told that the questionnaire was for piloting as the method employed here is known as 'the undeclared method'. The objective is to conduct the study as if it were real and find out if inconsistency and ambiguity still persist. Any comments or concerns raised by the interviewees were noted and the feedback of this group was again added to the questionnaire. This produced the final version that was used to collect the primary data for this research. Calculating the Cronbach's Alpha is also one of the suggested ways of enhancing the reliability of the data.

Cronbach's alpha measures how well a set of items (or variables) measures a single unidimensional latent construct. When data have a multidimensional structure, Cronbach's alpha will usually be low. Technically speaking, Cronbach's alpha is not a statistical test - it is a coefficient of reliability (or consistency) (www.ats.ucla.edu, accessed December, 2007).

As part of the process of testing reliability, I have considered the calculation of Cronbach's Alpha, which theoretically gives some indication as to the level of reliability of the data. However, calculation of Cronbach's Alpha is particularly relevant in cases where the questionnaire is one-dimensional and the majority of the questions measure the same variable. However, if the questionnaire is multi-dimensional it will be low, as the above extracts states. Since my questionnaire is multi-dimensional and the other tests of reliability and validity discussed above proved to be successful, Cronbach's Alpha was not deemed to be particularly relevant and thus was not calculated.

Piloting was applied to both the survey questionnaire and the semi-structured interviews.

6.6.3 Collecting the Data

As explained in previous sections, my research employed both survey questionnaires and semi-structured interviews. In the following paragraphs, I will describe how the data for the research was collected through the survey questionnaire. How the data was collected through the semi-structured interview will be handled in a separate section.

6.6.4 Sampling

Sampling refers to the concept of selecting a part of a whole as it is not always feasible to cover the whole, known as 'the population', in a study.

The concept of sampling is an integral part of most research and ours is not an exception. Sampling has been defined as a small representation of the larger whole (Rao 1994.p.262). Sampling is usually done as covering the entire population is costly and time-consuming. Instead of testing the population, you can choose a representative sample so that you can generalize the findings to the population (Keller & Warrack 2002).

The objective is to use small representations to draw conclusions from the whole, known as the 'population' or the 'universe'. However, this will not be achieved unless the chosen sample has certain characteristics and it is the duty of the researcher to make sure his or her sample meets that criterion. Therefore, the researcher has to seriously think about the following:

1. The relevant population and parameters, which refers to the population from which the sample should be selected. In this case, less affluent UK Muslims represent my population and a representative sample had to be selected from this population. After scanning through the vast amount of literature on UK Muslims and their economic profiles and critically evaluating them, I came to the conclusion that Somalis, Bangladeshis and Pakistanis would fall into this category. No doubt, there are a few wealthy individuals in all of these communities, with varying degrees of wealth, but the majority of them can be classified as poor by UK standards.

2. The appropriate sampling framework, which means identifying all the members in the population (Rao 1994.p.263). In fact, many reports suggest the majority (73%) of UK Muslims, who are estimated at about 2 million, are poor. For instance, the national youth agency website (www.nya.org) has collated statistics of UK Muslims and reported that 73% UK Muslims households live below the poverty line (www.nya.org, accessed December 2007). Similarly, The Guardian newspaper reported on 25th August 2005, that 69% of Pakistanis and Bangladeshis live below the poverty line. However, this study did not take into account the UK Somali population who represent the poorest UK Muslims which in my opinion would have pushed the percentage much higher than that reported. Therefore, the sampling framework could be estimated to be about 1.5 million (73% of 2m).

3. The sampling method to be used, which implies that a choice has to be made between probability and non-probability sampling. Also, within each method, a specific method has to be chosen. For instance, if probability sampling is preferred, then the researcher has to further identify the probability sampling method selected. Taking this into account, I decided to go for probability sampling first as it allows the researcher to draw statistical

inferences about the population from the sample responses (Robson, 2007.p.261) and then I selected stratified random sampling as I believe it best suits my sampling objectives. As the name suggests, this involves dividing the sample into groups or strata and then randomly selecting from each group (Robson, 2007.p.261).

As stated earlier, my research population is the less affluent UK Muslim communities which are made up of various communities with distinct characteristics in terms of culture, language, socio-economic profiles and their level of integration and exposure to the UK financial system. The choice of stratified random sampling is therefore deemed most appropriate in this regard.

4. Sample size, which is very important as the size of the sample has a direct impact on the overall acceptability and the generalizability of the findings. I took many things into account in deciding the appropriate sample size including:

1. The overall UK Muslim population
 2. The percentage of UK Muslims who could be described as poor (less well off)
 3. The opinions of my supervisor and other academics, by seeking their opinions regarding the most appropriate sample size
 4. Existing literature on the subject of sampling and deciding on the most appropriate sample size
 5. Any statistical tools that could assist me in determining the right sample size.
- However, after carrying out a preliminary survey of the statistical tools available for this purpose I chose one of the most popular statistical packages known as Power Analysis and Sample Size (PASS) by Statistical and Power Analysis

Software (SPAS) which is a comprehensive and easy- to-use tool for calculating sample size (www.ncss.com, accessed December 2007). Like any other software, this package requires certain data input to calculate the sample size and the required data for this purpose included the following:

- a) The population size, which in my case was estimated to be around 1.5m (73% of 2m) as previously explained
- b) The baseline proportion, which in this case was determined to be 0.8 after conducting a pilot survey on the target population to estimate the same
- c) The confidence level which in this case was estimated to be 0.95
- d) The precision which in this case was estimated to be .05

Once the necessary data was fed into the SPSS software and the right command (run) was clicked the software calculated the sample size to be 233 individuals.

Knowing the minimum sample size was very important as it set the threshold that needed to be reached or exceeded as statistical tests have minimum numbers below which they should not be used (Robson, 2007.p.266). Bearing this in mind and the fact that the larger the sample, the lower the likely error in generalizing (.Robson, 2007, p.261), I tried my best to increase the sample size from the above-mentioned number. Generally speaking, one has to find a fair balance between the time and the cost constraints involved in that particular sample, the level of accuracy sought and the sample size. Obviously, the larger the sample, the more representative and the more accurate it will be and it will be easier to generalize the findings. According to Keller & Warrack (2002.p.266) "The larger the sample size is, the more accurate one can expect the sample estimates to be"

As far as my sample was concerned, there were obviously some real cost and time constraints which limited my sample size. The significant diversity and dispersion of the population from which I had to draw a representative sample meant the time and cost constraints would be unusually high due to the inherent extra complications associated with such a target population.

Caught between these challenges and the strong desire to make the sample size as large as possible, I was pleased to complete 287 questionnaires out of which 255 were fit for purpose. The sample size for this study, upon which both descriptive and inferential statistical analysis will be performed, is therefore 255 questionnaires.

.6.6.5 Practical steps of conducting the survey questionnaire

As I explained earlier in the chapter, the sample respondents were chosen from four major UK cities where the presence of less affluent UK Muslims was deemed to be high, namely, London, Birmingham, Manchester and Leicester. The researcher personally visited all four cities. These cities were chosen due to the large number of less well off Muslims residing in them.

Before embarking on my journey, I drew a plan of the particular places I thought my target sample would be and came up with the following venues:

1. Mosques
2. *Halal* shops & restaurants
3. Some selected streets with high Muslim populations

4. Muslim community organizations

The above venues were chosen for their obvious relevance to the research objectives.

The target sample would be highly probable to be in one of these places. However, each respondent had to be selected randomly to ensure that each had an equal chance of being included in the survey questionnaire. The researcher was well aware of the importance of the process, the approach and the etiquette of conducting survey questionnaires to reduce subjectivity and personal bias.

6.6.6 Questionnaire Screening and analysis

It is a highly recommended practice to clean the data before carrying out any real analysis on it. The objective is to check any errors and inconsistencies or what is known as 'rogue data' which may have resulted from either incomplete questionnaire or data wrongly entered into the computer which could distort the results. (Moore 2006.p.135)

After completing all the questionnaires and receiving back all those left with respondents, I counted the available number of questionnaires which totalled 287.

An initial screening of the questionnaire was carried out regarding the completeness and the eligibility of the responses, as some respondents may not have written legibly and it would be difficult to decide the meaning of their message, especially where understanding the written text is crucial for the question. I noted through this exercise that some questionnaires did not meet the level of completeness and accuracy that would qualify them for inclusion and therefore had to be excluded. As a result of this initial screening, only 255 out of the 287 questionnaires met the set criteria for inclusion

and thus were counted as the final sample upon which the comprehensive research analysis will be based.

The steps taken by the researcher in this regard is recommended by many commentators including Robson (2007.p.397) who states that “Just as one needs to proof-read text for errors, so a computer data set needs to be checked for errors made while ‘keying in’ the data”

Others explain that this step is a prerequisite for data analysis as the chances of data entry errors are very high and carrying out real analysis on the crude data would be very dangerous indeed (www.findarticles.com, accessed December 2007).

Once you have entered the data, it should be ‘screened’ and ‘cleaned’ before subsequent analysis. Screening is a process that identifies real or potential errors in your data entry. The errors need to be corrected (cleaned) to the maximum extent possible before analyzing the data.

The final complete sample was then entered directly into the SPSS program through the data view file command. Initially all the columns were created, including serial number, age etc and then the actual questionnaires were entered one by one.

On completion of the physical data entry, the data was initially screened to amend any data entry mistakes such as omissions and errors. On completing the correction of all the observed errors, a random sample was selected from the overall data for a final check before any real analysis of the data was carried out.

After carrying out the final cleaning of the data, the actual analysis began as the coming chapter will elaborate.

6.6.7 Conducting the semi-structured interviews

The other type of data that was collected in this research was through semi-structured interview which makes it qualitative data. Many commentators suggest that the analysis of qualitative data is more complex and demanding than that of quantitative data and some go further to call it an attractive nuisance. This means that unless great care is taken in its analysis, it may cause real harm to the research itself (Robson, 2007.p.397). Bearing this in mind, I was very careful in the analysis and interpretation of the semi-structured interview. Again, the detailed explanation of how the analysis will be carried out will be dealt with in the relevant chapter. However, it is worth mentioning that a word processing package was used to help in organizing and arranging data in an analyzable format.

As the semi-structured interviews were for a limited population, that is the practitioners and academics of Islamic finance in the UK, there was no need for sampling. The researcher interviewed most of the financial institutions which provide *Shari'a*-compliant financial services in the UK including:

1. The Islamic Bank of Britain
2. Lloyds TSB-Islamic financial services
3. ABC-Al-Buraq

At least one employee from each institution who was involved in the provision of *Shari'a*-compliant financial services was interviewed

Preparation for the interview was meticulously planned and professionally conducted. The responses given by each respondent were recorded individually, but later grouped and coded to simplify the analysis as I will explain in chapter 9.

6.6.8 Challenges and Obstacles

Like any other research, mine was not immune to practical challenges and difficulties and some of the obstacles encountered included:

1. Some respondents expressing a degree of suspicion concerning the objectives of the survey due to the general feeling among Muslims about any study on their finances or religiosity. Despite assurances regarding their anonymity and the strict confidence of their responses and detailed explanations of the aims of the survey, some still remained sceptical about our intention and declined to take part.

2. The language barrier which was a challenge on some occasions, especially when I had to interview elderly members of the Bangladeshi or the Pakistani communities, as the researcher does not speak their native languages and the respondents could not communicate in English. As a result, interpreters had to be engaged which involved more time and money. However, the language barrier was less significant with the Somali community as the researcher is originally from Somalia.

3. Some respondents declining to give responses saying that they would like to take time to think about their responses. This prolonged the process and resulted in many mistakes that would have been avoided had the interviewer had the opportunity to clarify matters at the scene. For instance, as the survey questionnaire was mainly conducted by

the researcher himself, with the help of some interpreters, through direct questionnaire interviews much of the inherent misunderstanding and ambiguity that usually surrounds survey questionnaires was removed.

4. Incomplete questionnaires and ineligible text when the questionnaires were left behind with the respondents. Whenever I could I completed the questionnaires with the respondents. However, at times it was felt necessary to leave them with the respondents as they preferred. For instance, when one of my interpreters visited some East London neighbourhoods to complete the questionnaire, the interviewees said that they needed more time to think about the questions before giving answers and they also suggested that they would like to have more forms to pass on to their families and friends who are very interested in these questions. Similarly, a number of shopkeepers in some cities requested that they could keep some copies for their customers to fill in which I agreed to. As I mentioned earlier, apart from a few cases like those mentioned above, the bulk of the survey data was collected through direct interviews with respondents, thus allowing the respondent to clarify any point before giving an answer to a particular question.

5. Getting data from females in less affluent UK Muslim communities was not an easy task and I had to engage a female interviewer. Finding an appropriate interviewer in each community was itself a real challenge, but in the end, I was fortunate to find the right candidate who did a very good job in this respect.

6. The honesty of the responses may be compromised by research inherent factors such as bias introduced by the researcher.

7. Knowledge of the respondents about the subject matter may limit or distort their answers

8. Social desirability may play a big role in distorting the responses as some of the questions are sensitive
9. Sampling errors may creep in
10. Bias of the researcher in interpreting the results

6.7 SUMMARY

This chapter introduced the research design and methodology strategy.

It started with the importance of research design and the critical role it plays in planning the overall research project. It also tackled the research methodology, explaining the chosen research methodology for this thesis and the justification therein. Survey questionnaires and semi-structured interviews were covered in some detail, emphasizing their relevance to this research as confirmed by both the research questions and hypothesis which have been presented again in this chapter. Data reliability and validity were briefly discussed in order to show how it would be dealt with in this thesis.

Finally, the stages of conducting the fieldwork were briefly explained with special emphasis on the practical phases of collecting the primary data for this research.

As an important element of the data collection process, sampling strategy was also briefly discussed. I hope that this chapter clearly demonstrates how the entire research process was carried out to achieve the research objectives which were to find relevant, reliable, accurate and comprehensive answers to the research questions

Chapter 7

QUESTIONNAIRE SUMMARY AND RESPONDENT PROFILING

7.1 INTRODUCTION

As the title suggests, this chapter, being the initial chapter of the analysis of the quantitative data collected through the survey questionnaire, summarizes the collected primary data. It also provides some basic descriptive analysis of the general characteristics of the sample respondents, such as their gender, age and ethnicity. This represents the first basic descriptive statistics to be carried out by the researcher on the collected primary data. According to Keller and Warrack (2002, p.18) descriptive statistics deals with the methods of organizing, summarizing and presenting data in a convenient and informative way. However, the analysis of the qualitative data, collected through the semi-structured interview, will be tackled later in a separate chapter. This chapter therefore concentrates on the salient features of the sample respondents of the survey questionnaire, covering, among other things, the format of the questionnaire, its objectives and the profile analysis of the respondents.

As described in the previous chapter, the research questionnaire was developed with the objective of finding relevant and satisfactory responses to the main research questions and their sub-questions. Bearing the above objectives in mind, the questionnaire was distributed to a randomly-selected sample of the target population. The sampling strategy and the specific steps of collecting the data were tackled in Chapter Six and will not be repeated here. However, the format of the survey questionnaire is explained in the coming section followed by the specific objectives of the same.

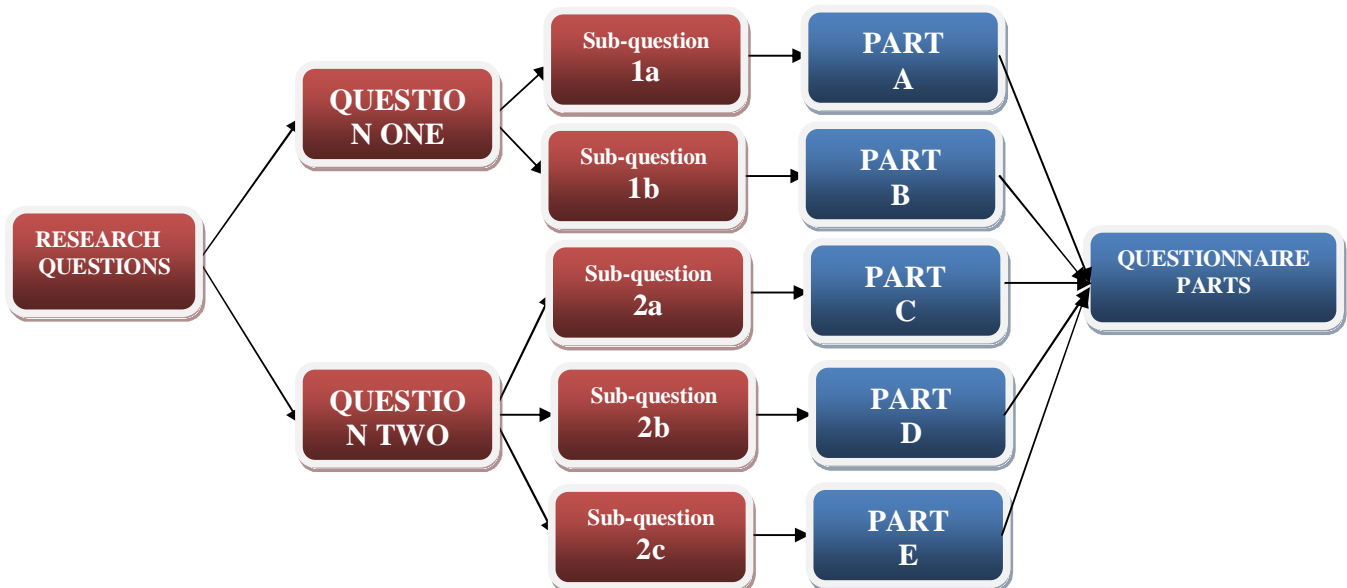
7.2 EXPLANATION OF THE SURVEY QUESTIONNAIRE

As stated earlier, the questionnaire was devised with the objective of finding reliable and reasonably accurate answers to the two main research questions and their sub-questions. The questionnaire consists of 30 questions and, based on the previously-mentioned objectives; it has been divided into five main parts with specific questions for different objectives. In the following paragraphs I will explain these parts and what kind of information they are intended to collect in order to contribute to the overall objective of finding reliable, relevant and accurate answers to the research questions.

I will explain the main objective of each part, however the objectives of some parts may overlap as the overall objective may be the same.

Diagram A, below, depicts the relationship that the research questions and its sub-questions have with the survey questionnaire. This is a clear testimony of the relevance of the survey questions to their respective questions.

DIAGRAM A



As the above diagram depicts, there are two major research questions and each research question has sub-questions (from left to right). For instance, question one has two sub-questions (1a and 1b) while question two has three sub-questions (2a, 2b and 2c).

The diagram also explains the relationship between the research question including and the questionnaire parts represented by the capital alphabets on the right (A-E). According to the said diagram, the two sub-questions of the first main research question (1a and 1b) relate to (A and B) of the questionnaire while the three sub-questions of the second main research question (2a, 2b and 2c) relate to (C, D and E) of the questionnaire parts.

In the coming sections, I will provide further explanation of the relationship between the research questions and research questionnaire by specifying which parts of the questionnaire are devised to answer the various research questions.

As the survey questionnaire format portrays, and as I have previously stated, each set of survey questions in the questionnaire address one of the two key research questions and their sub-questions. For instance, the first part (Part A) which is represented by questions (1-8) is expected to collect data from the sample of respondents to answer the first sub-question of the first main question (1a, see Diagram A on page 177). As I have already explained in previous chapters of the thesis, the question is phrased as follows:

- What are the socio-economic structures of less affluent UK Muslims?

This question will hopefully be answered by the data collected through Part A of the questionnaire on the selected sample by using basic descriptive statistics such as frequencies and percentages.

The second part of the survey questionnaire (Part B) consists of four questions (9-12) which have been designed to extract crucial data on respondents' levels of access to conventional financial services in the UK. Again, as I have already explained in previous

sections, each part of the survey questionnaire is aimed at collecting data on one of the main research questions and its sub-questions. This part specifically relates to sub-question (1b) of the first main research question which was:

- What banking, other micro-financial services and home-financing facilities are employed by the less affluent UK Muslim community?

It is expected that the responses of the sample respondents will provide reasonable answers to this particular question. The real statistical analysis of this part and others will be presented in Chapter Eight as part of the descriptive and inferential statistics that will be carried out in that chapter to draw some conclusive answers from the data.

The third part of the survey questionnaire (Part C) which covers questions (13-18) was designed to shed light on the level of awareness of less affluent UK Muslims of the existing *Shari'a*-compliant financial products in the UK and how significantly that level of awareness influences their decisions to access such products and services.

As the above diagram clearly shows, this section is obviously related to the first sub-question of the second main question (2a) where the objective is to find out how well aware less affluent UK Muslims are of the *Shari'a*-compliant financial products currently available in the UK.

The first sub-question of the second main question therefore was:

- What is the level of awareness of the less affluent UK Muslim community of existing *Shari'a*-compliant financial products in the UK?

The fourth part (Part D) is designed to gather information about small businesses owned by less affluent UK Muslim entrepreneurs and how aware they are of the existing *Shari'a*-compliant financial products for businesses and how much they benefit from them. Apparently it is an extension of the level of awareness about the *Shari'a*-compliant finance currently on offer in the UK to include a sample from small business owners

among less affluent UK Muslims. The reason for having a separate section on the level of awareness of entrepreneurs from this community about the *Shari'a*-compliant business financing schemes offered in the UK is that this is deemed important by the researcher. The awareness and the access of this group to *Shari'a*-compliant business financial products is thought to be crucial in tackling financial exclusion in this community by enabling them to utilise their entrepreneurial skills in a manner consistent with their faith.

The final part (Part E) which covers questions (24-30) is about the attitudes of the UK Muslim community towards the existing *Shari'a*-compliant financial products. The objective of this section is to find out what less affluent UK Muslims think about the *Shari'a*-compliant financial products currently on offer in the UK and how their perception of these products influences their decision in accessing the available *Shari'a*-compliant financial products. This is expected to answer the second and third sub-questions (2b and 2c) of the second main research question which are presented below:

2b) What is the perception of the less affluent UK Muslim communities regarding the existing *Shari'a*-compliant financial products?

2c) Has the introduction of *Shari'a*-compliant financial products in the UK significantly enhanced the level of access to financial products by less affluent UK Muslims?

In order to answer the above questions, the researcher undertook a questionnaire survey of the generally less affluent UK Muslim population and semi-structured interviews with the bankers working for the institutions offering *Shari'a*-compliant financial products in the UK and the UK-based scholars with expertise on *Shari'a*-compliant financial products.

The mechanics of the empirical work carried out by the researcher was tackled in the previous chapter in great depth. However, the characteristics of the sample respondents

will be presented in the coming sections as the beginning of the process of generating some basic statistical tables to achieve the stated research objectives.

7.3 CHARACTERISTICS OF THE SAMPLE RESPONDENTS

This section, as the beginning of the statistical tests to be carried out by the researcher, presents the descriptive statistical tables generated from the SPSS output after subjecting it to rigorous data cleaning and accuracy testing as detailed in the previous chapter. The general characteristics of the sample respondents who participated in the survey questionnaire are explained.

Describing the general features of the respondents prior to actual data analysis is a highly recommended practice in quantitative data analysis in general and in survey questionnaire analysis in particular. The objective is to summarize the data by using frequencies, percentages and tables known as profile analysis or exploring the data set (Robson, 2007.p.403). However, it is worth mentioning that SPSS was employed in carrying out the above-mentioned tasks and as I stated in Chapter Six, the accuracy of the data was rigorously checked before any data from the generated information was used. The reason for carrying out these common checks, including data cleaning, was to inspect any unusual or invalid entries.

Only after I was reasonably sure of the accuracy of the data entry did I start to perform some basic descriptive statistical analysis which I will present in the following sections.

I will now turn to the mechanics of carrying out this important task as presented in the following tables.

Table 7.3.1: Respondents' Gender Frequency

Gender	Frequency	Percentage
Male	134	53%
Female	121	47%
Total	255	100%

The above table shows that 53% (134 out of the 255) of the people who participated in this survey were male and 47% were female. It is obvious from this analysis that the sample was fairly evenly distributed between the two sexes with neither being significantly dominant, although, as the numbers portray, the number of males was slightly higher. It is expected that the views of both genders is reasonably represented and any inferences to be drawn later in the statistical analysis could be said to be fairly representative as far as gender is concerned.

Gender difference is recognised by all cultures and Muslims are not an exception. According to the Islamic faith, men and women are created as equal partners who should complement each other. "*And have we not created you in pairs (Quran: 78:8)*" and the coexistence of the married couple is the source of love and mercy as the following verse from the Quran explains.

And among His signs is this that He created for you mates from among yourselves, that you may dwell in tranquillity with them, and He has put love and mercy between your hearts. Verily in that are signs for those who reflect."
(Qur'an 30:21).

However, in Muslim societies, like many others, the role of the woman is more domestic than that of the man and their main responsibility is to care for the children, while the man is charged with the responsibility of bread-winning for his wife and children as the main guardian of the family.

The difference between the two sexes becomes even more obvious when the discussion is about financial matters and I have therefore decided to look at the impact that gender difference may cause in this respect.

The information presented in this table will be analyzed further in the following chapter and will be looked at in the light of other key data such as:

1. Respondents' gender and access to formal conventional finance such as bank accounts and mortgages
2. Respondents' gender and access to informal finance such as *Hawala*(money transfer) and Rotating Savings and Credit Associations (ROSCA'S)
3. Respondents' gender and access to *Shari'a*-compliant financial products
4. Respondents' gender and awareness of *Shari'a*-compliant financial products
5. Respondent's gender and attitudes towards *Shari'a*-compliant financial products
6. Whether there are significant differences between the above variables due to gender

Table 7.3.2: Respondents' Age Frequency

Age	Frequency	Percent	Cumulative
16-24	59	23%	23
25-34	56	22%	45
35-49	99	39%	84
50-64	34	14%	98
65+	6	2%	100
Total	255	100	

It is apparent from the above table that the majority of respondents who participated in this study were between the ages of 35 and 49. It is further clear from this table that those respondents younger than 50 represented 84% of all respondents which gives some crucial information about the age concentration of our sample. One can see from

table that since almost all the respondents were young, if I assume people under the age of 50 to be classified as young, their responses largely represent those of the less affluent young and middle aged UK Muslims. I also understand from the same table that older people, represented by those over 50, were not particularly well represented as they accounted for only 15% of the sample.

This is crucial data and I will definitely need to take this and other important characteristics of our sample into consideration when carrying out the real data analysis and interpreting the findings of the research in later chapters. It will be particularly relevant when we look at:

1. Respondents' age and access to formal conventional finance such as bank accounts and mortgages
2. Respondents' age and access to informal finance such as *Hawala*(money transfer) and Rotating Savings and Credit Associations (ROSCA'S)
3. Respondents' age and access to *Shari'a*-compliant financial products
4. Respondents' age and awareness of *Shari'a*-compliant financial products
5. Respondent's age and attitudes towards *Shari'a*-compliant financial products
6. Whether there are significant differences between the above variables due to age.

Table 7.3.3: Respondents' Ethnicity

Ethnicity	Frequency	Percent
Somali	159	62.4%
Bangladeshi	37	14.5%
Pakistani	33	12.9%
Arab	20	7.8%
Other	6	2.4%
Total	255	100

As the above table shows, the majority of respondents were Somalis which indicates that Somalis represent a high proportion of less affluent UK Muslims. Of course, the fact that the researcher himself is of Somali origin and that the accessibility of this community proved to be a lot easier than other Muslim communities played a big role in the high number of respondents in the sample.

It also seems that the respondents of Pakistani and Bangladeshi origin were fairly evenly distributed as Pakistanis accounted for about 15% and Bangladeshis 13%. However, the respondents that were classified as Arabs and others were the smallest in the sample

Since the Somalis accounted for 62%, it may be good idea to group the respondents into Somalis and non-Somalis when carrying out the statistical analysis on the basis that this may produce some significant results. Again the numbers presented above may tell us more when I look at them in the light of:

1. Respondents' ethnicity and access to formal conventional finance such as bank accounts and mortgages
2. Respondents' ethnicity and access to informal finance such as *Hawala* (money transfer) and Rotating Savings and Credit Associations (ROSCA'S)
3. Respondents' ethnicity and access to *Shari'a* compliant financial products
4. Respondents' ethnicity and awareness of *Shari'a*-compliant financial products

5. Respondent's ethnicity and attitudes towards *Shari'a*-compliant financial products
6. Whether there are significant differences between the above variables due to ethnicity.

Table 7.3.4: Respondent's Length of Stay in the UK

Length of stay in UK	Frequency	Percent
Less than 5 years	52	20.4
Between 5-20 years	159	62.4
More than 20 years	44	17.3
Total	255	100

It is clear from the above table that the majority of respondents have been in the UK for more than 5 years but less than 20 years. This means that, although they are not recent comers they are people who are not yet fully integrated into the British system as full integration usually takes longer than one decade.

The number of recent comers was also higher than those who had been here more than 20 years. This information will be more meaningful if I look at:

1. Respondents' length of stay and access to formal conventional finance such as bank accounts and mortgages
2. Respondents' length of stay and access to informal finance such as *Hawala*(money transfer) and Rotating Savings and Credit Associations (ROSCA'S)
3. Respondents' length of stay and access to *Shari'a*-compliant financial products
4. Respondents' length of stay and awareness of *Shari'a*-compliant financial products
5. Respondent's length of stay and attitudes towards *Shari'a*-compliant financial products
6. Whether there are significant differences between the above variables due to respondents' length of stay.

Table: 7.3.5: Respondents' Marital Status

Marital Status	Frequency	Percent
Single	96	37.6
Married with children	90	35.3
Divorced with children	38	14.9
Separated	20	7.8
Other	11	4.3
Total	255	100

As the above table shows, the two most highly represented groups were single people and those married with children, accounting for 38% and 35% respectively. The divorced with children accounted for 15% while the rest were about 12%. This means that most of our respondents were either single or married with children which might explain the general attitude of less affluent UK Muslims towards the idea of having children soon after marriage. Another important indicator is the number of divorced with children which is relatively high (15%). Again this is key information as the divorce rate is high among the UK Somali community which is well represented in this study.

Perhaps it is worth mentioning at this juncture that the less affluent UK Muslims have some common shared values, but each community has its own culture which may not necessarily be identical to other cultures. For instance, although all Muslim cultures place great importance on the family, there are differences between the communities when it comes to things like marriage and divorce. For instance, for Bangladeshi and Pakistani communities, it is quite normal for the whole family to live in the same accommodation and when a boy marries, he usually brings his wife home to live with his family as the following extract suggests:

The family unit plays an important role within Bangladesh. Often the family is the foundation for both the 'social and economic life'. Dependency is placed upon the eldest, whose responsibility is to care and provide for the others in the family. The family will reside in one household and when the son marries the wife will be brought to his home. The family is the basis from which the family might socialize. It is a protective and closed circle where duty, respect and love are key factors (www.irespect.net/untold. Accessed on 18th December 2008).

However, the case is different for the Somali community as far as marriage and divorce are concerned, where the family takes a supportive role as opposed to central role and newly-wed couples normally live in their own home. Similarly, divorce and remarriage is a lot easier in the Somali culture if things go wrong and remarriage for divorced women is not difficult at all for Somali women as it may be in other Muslim cultures, as the following story from a Somali lady who married 37 times, which is almost impossible in the other Muslim communities, explains.

We can divorce! It's our choice. We are very lucky in Somalia. We don't look down on women who divorce. Believe this! My great aunt has been married 37 times! 37 husbands! It is possible in Somalia The reason? No baby! She makes a contract with these men. She says, "If I am not expecting in three months, I will divorce you! And always they respond, "Okay". She's very strong. After 23 marriages, she has one daughter, who lives in England. Quite a woman, my great aunt (ICAR: 2003)

Thus, it is apparent that the less affluent UK Muslim communities are made of heterogeneous communities with different cultures and values, but united by faith and the common problem of social and financial exclusion exacerbated by the limited access to the UK financial services industry

However, the numbers in the above table will be clearer and tell us more when the above frequencies are looked at with the other variables such as:

1. Respondents' marital status and access to formal conventional finance such as bank accounts and mortgages
2. Respondents' marital status and access to informal finance such as *Hawala*(money transfer) and Rotating Savings and Credit Associations (ROSCA'S)
3. Respondents' marital status and access to *Shari'a*-compliant financial products
4. Respondents' marital status and awareness of *Shari'a*-compliant financial products
5. Respondent's marital status and attitudes towards *Shari'a*-compliant financial products
6. Whether there are significant differences between the above variables due to

Table 7.3.6: Respondents' Employment Status

Annual income	Frequency	Percent
Self-employed	31	12.2
Employed	76	29.8
Unemployed	129	50.6
Retired	6	2.4
Other	13	5.1
Total	255	100

This table shows clearly that more than half of the respondents were unemployed (51% of the total sample) which again concurs with the fact that the majority of the Somalis who represented more than 60% of the sample are unemployed.

Unemployment is high among the less affluent UK Muslims, particularly in the Somali community due to many factors including language barrier, difficulty in transferring their credentials to UK standards to utilise their professional skills in this country and lack of track record references in the UK.

Other less affluent UK Muslim communities such as Bangladeshis also share the problem of unemployment with the Somali community even though they are far more settled than Somalis who could be described as new arrivals as most of them arrived in the UK in the early 1990s. It is very unfortunate to note, as some reports suggest, that second and third generations Bangladeshis in the UK do suffer from “disproportionately high rates of unemployment, overcrowding and certain types of health problems” (David Garbin, 2006).

Again this is evidence that the less affluent UK Muslims are very much disadvantaged in the labour market even if they are born, bred and educated in the UK, which has a direct impact on their income as well as their relationship with and influence on the financial services industry.

It is also reported that Pakistani and Bangladeshi women are the poorest groups in the country and these reports suggest that two out of ten Pakistani and Bangladeshi women are active in the job market, compared with seven out of ten in black Caribbean and white women.

The table also indicates that 30% of the respondents, who would usually represent the Pakistani and the Bangladeshi community as they are more settled and better integrated than the Somalis, were employed, but it is widely reported that Pakistani and Bangladeshi men are paid far less than their white counterparts. According to the report entitled “Black and Underpaid” which was launched at the TUC’s Black Workers’ Conference on the 12th April 2002, Pakistani and Bangladeshi men earn £150 per week less than white men, while the difference is £115 for Caribbean men and £116 for Africans.

The retired and others were negligible as this table indicates. Again this table would tell us more if I looked at it with other variables such as:

1. Respondents' employment level and access to formal conventional finance such as bank accounts and mortgages
2. Respondents' employment and access to informal finance such as *Hawala*(money transfer) and Rotating Savings and Credit Associations (ROSCA'S)
3. Respondents' employment level and access to *Shari'a*-compliant financial products
4. Respondents' marital employment level and awareness of *Shari'a*-compliant financial products
5. Respondent's employment level and attitudes towards *Shari'a*-compliant financial products
6. Whether there are significant differences between the above variables due to employment level.

Table 7.3.7: Respondents' Qualifications

Educational Qualifications	Frequency	Percent	Cumulative
None	56	22	22
GCSE	50	19.6	41.6
A-Level	49	19.2	60.8
Diploma	49	19.2	80.0
Degree	45	17.6	97.6
Other	6	2.4	100
Total	255	100	

This table shows that the highest number of respondents (22%) did not have any qualifications while those with GCSEs and A-Levels accounted for 20% and 19% respectively. Similarly, people with Diplomas and Degrees were 19% and 18% respectively. However, educational achievement of Pakistani boys, like other ethnic minorities such as Bangladeshis and Somalis, is low as only 22% of sixteen year olds

obtain GCSE grades A-C. However, this is improving as these communities become more settled in the UK.

The overall picture from this table is that the majority of respondents had no formal qualifications or had a Diploma at best (80%). This of course had an impact on how they responded to the other questions and further analysis could enlighten us better if I looked at:

1. Respondents' educational level and access to formal conventional finance such as bank accounts and mortgages
2. Respondents' educational level and access to informal finance such as *Hawala* (money transfer) and Rotating Savings and Credit Associations (ROSCA'S)
3. Respondents' educational level and access to *Shari'a*-compliant financial products
4. Respondents' educational level and awareness of *Shari'a*-compliant financial products
5. Respondent's educational level and attitudes towards *Shari'a*-compliant financial products
6. Whether there are significant differences between the above variables due to educational level.

7.4SUMMARY

This chapter is the beginning of the statistical analysis to be applied to the data collected through the survey questionnaire. However, the analysis of the data collected through the semi-structured interviews will be dealt with in a separate chapter, as the bulk of the analysis to be carried out there is qualitative rather quantitative.

Hence, as the preceding paragraphs show, the main objective of this chapter is simply to summarize the survey questionnaire and describe the characteristics of the sample

respondents. It started with an explanation of the survey questionnaire and how the two main research questions and their sub-questions relate to the five parts of the questionnaire as portrayed by Diagram A on page 178.

The characteristics of the sample respondents such as their age, ethnicity, gender and level of education were presented in frequency tables and briefly discussed.

The importance of the data presented in this chapter will be fully appreciated when looked at in the light of the more critical questions such as the relationship between the characteristics of the sample respondents, including age and gender, and their access to conventional and *Shari'a*-compliant finance as well as their attitudes to these products. This important task is left until Chapter Eight where the key statistical analysis will be tackled and findings will be presented.

Chapter 8

ANALYSIS OF THE RESULTS OF THE SURVEY QUESTIONNAIRE

8.1 INTRODUCTION

This chapter is concerned with the analysis of the quantitative data and reporting the findings thereof. However, the analysis of the semi-structured interviews will be presented in a separate chapter as it involves qualitative analysis as opposed to the quantitative analysis that will be applied to the survey questionnaire.

This distinction is desirable as these two types of analysis are quite different and employ totally different means in achieving their respective objectives.

Quantitative analysis for instance, depends heavily on statistical significance, to the extent that some suggest the two terms are actually synonymous (Robson, 2007.p.18), while qualitative analysis mainly uses simple human judgment in interpreting and organizing the collected data.

On completion of the analysis in this chapter, I hope be able to answer most or all of the research questions as the whole objective of the thesis is to find satisfactory answers to the research questions (Moore, 2000.p.133)

As I have explained in the previous chapter, the questionnaire is divided into five sections and each section is developed to find satisfactory answers to one or more of the main research questions and their sub-questions as previously explained in the thesis.

8.2 CARRYING OUT THE ANALYSIS

In order to find relevant and convincing answers to the remaining research questions, this chapter will be organized into sections to handle the various parts of the survey questionnaire.

At the beginning of each section, I will present the relevant research question relating to that particular section. Consequently, all the possible descriptive and inferential statistical analysis will be performed on the relevant data.

The SPSS statistical package was selected by the researcher to for its obvious appealing features as explained in the previous chapter. As the package selected to analyze the data is SPSS, all the generated descriptive and inferential statistics will be explored and explained. However, the fact that the majority of our data is in nominal form means that the amount of relevant inferential statistical analysis is limited. However, all the possible and relevant descriptive and inferential statistical analysis will be explored and utilized as practically as possible.

The most obvious statistical analysis that will be carried out on this data includes descriptive statistical analysis such as frequencies and percentages.

As far as inferential statistics is concerned, the Mann-Whitney U-test, Kruskal Wallis, factor analysis and Chi-square tests will be employed in analyzing the survey questionnaire. Each of these statistical analyses will be used in the relevant section of the chapter, a brief description of it will be presented prior to its application and the result will subsequently be interpreted.

8.3 RESPONDENTS' ACCESS TO CONVENTIONAL FINANCE

1-b: What conventional banking, other micro-financial services and home-financing facilities are employed by the less affluent UK Muslim community?

As I stated at the beginning of this chapter, I expect to find relevant and satisfactory answers for this question once thorough statistical analysis is carried out in this section where the data relevant to this question is presented for further analysis.

This section will therefore look at the overall access that the sample respondents had to conventional finance and the sub-sections I will look at include:

1. Respondents' access to conventional accounts such as current, savings and deposit time accounts
2. Respondents' access to conventional home finance through mortgages
3. Respondents' access to informal finance such as *hawala*(money transfer) and informal credit through family and friends.

Each of the above-mentioned topics will be dealt with separately, with the help of some descriptive statistics such as frequencies and percentages, as the following sections will clearly demonstrate. Also, some inferential statistical analysis will be performed, such as Chi-square tests and regression analysis. Any other statistical analysis deemed to be relevant to this section will also be tackled here.

Table 8.3.1: Respondents' Access to Formal Conventional Bank Accounts

Type of account	Count	Percent
Post-office	66	26%
Current account	211	83%
Savings account	63	24%
Time Deposit	8	3.1%
ISAs	1	0.4%
Other	1	0.4%

As the above table shows, out of the 255 people who participated in the study, 66 respondents (26%) said that they had a Post Office account, the most basic account, which is essential even for those receiving Income Support.

Similarly, 211(83%) of them said they had current accounts which indicates that most of the respondents had current accounts before the compulsory Post Office accounts were introduced. Sixty-three people (24%) said they had savings accounts, which also shows that although these people were not particularly well-off, they still had some savings, however little. This may well be attributable to the culture of some of these communities, such as the Somalis, whose custom it is to save even if their income is very low. It is interesting to see from the table that only eight (3%) out of the 255 people interviewed had Time deposits and only one person (0.4%) had ISAs which shows their low level of financial literacy as ISAs do not require a lot of savings, but are a tax efficient way of saving. However understanding products like ISAs requires a certain level of financial

literacy and sophistication such as an appreciation of the tax benefits involved in such a scheme.

More information can be obtained by looking in greater detail at how the different groups responded to the above question. For instance by looking at how different ages responded to this question or how males and females responded I will see if the differences in their responses are significant.

This analysis will be carried out later in the relevant section of each table by using Chi-square tests. A difference is normally deemed to be significant if the P- Value is less than 0.05 or 5%.

Table 8.3.2: Respondents' Access to the Main Conventional Finance in the UK

Type of product			Count	Percent
			Yes	Yes
Mortgage			20	7.8%
Personal Loan			13	5.1%
Business Loan			2	0.8%
Interest	Earning	saving	7	2.8%
account				
Other			2	0.8%
None			215	84.3%

The above table tells us a lot about the level of access that less affluent UK Muslims have to the most common major conventional finance which is the backbone of the UK financial system.

Interestingly, it is clear from this table that 215 (84%) of the 255 respondents who participated in this study said they did not have any of the above products and less than 8% said they had mortgages, while less than 1% had business loans.

This clearly indicates that although a lot of Muslims have basic bank accounts, such as current accounts and Post Office accounts as the previous table indicates, most of them do not access the above-mentioned products. It can be concluded from this table that less affluent UK Muslims are largely excluded from the main conventional financial services and the reasons for this exclusion will be dealt with in the next table. Again, analyzing the level of access between the various categories among the respondents will be dealt with in the appropriate section of the study.

Table 8.3.3: Type of Property Occupied by Respondents

Type of Property	Count	Percent
Rented property	112	43.9%
Owned property	30	11.8%
Council house/flat	99	38.8%
Other	11	4.0%
Total	255	100%

As the above table shows the majority of respondents lived in either privately rented properties or in council accommodation which is typical of any poor community in the UK.

Only 12% of respondents owned their own properties. This could explain the level of financial exclusion among less affluent UK Muslims, especially regarding mortgages which are the mainstream mode of financing home purchasing in the UK.

As I have explained in the previous table, these people do not access conventional finance for many reasons including religious ones.

Together the above three tables present a convincing answer to the first main research question and its sub-questions presented at the beginning of this section. They clearly show that less affluent UK Muslims are not well served by the conventional UK financial system as they are on the margins of accessing its services. Although a very high number of this community have either current account (83%) or Post Office accounts (26%), they are still very much excluded from the main financial services market, such as home and business-financing, as 83% of those who participated in the survey questionnaire said they had none of the main conventional financial services. Again this fact is reiterated by the following table where, the type of property in which respondents resided was analyzed. It confirmed an endemic lack of access to home-financing, as almost 83% of respondents lived either in privately rented or council accommodation.

Having touched upon the respondents' access to conventional finance such as bank accounts, mortgages and personal and business loans and the type of properties in which they resided, I am now in a position to answer the first research question regarding the level of access that less affluent Muslims have to the various conventional financial products available in the UK. The facts presented in the above table answer this question very well and show clearly that the needs of less affluent Muslims are scarcely met by the UK conventional financial system. However, the respondents differed in many aspects such as gender, age and level of income and therefore the way they responded

to a particular question could have been influenced greatly by the category to which they belonged. Hence, it is crucial that I look at how the characteristics of the respondents impacted on their respective responses and whether significant differences exist among the respondents' answers as a result.

The next table and the following eight tables are devoted to this analysis with brief comments under each table to interpret the results.

8.4 ACCESS TO CONVENTIONAL FINANCE CLASSIFIED BY RESPONDENTS' CHARACTERISTICS

As I mentioned at the beginning of this chapter and repeated in later parts, the differences between the respondents will be analyzed to see if significant differences exist as far as access to conventional finance is concerned. The objective is to gauge the extent to which respondents differed in terms of accessing conventional finance.

I will therefore perform some inferential statistical analysis where I will look at how access to conventional finance is affected by respondents' characteristics such as gender, age, ethnicity etc.

The most commonly used test in statistical analysis is the Chi-square test. As I promised at the beginning of the chapter, I will briefly describe the Chi-square tests and how it is used in carrying out statistical analysis.

Robson (2007.p.418) defines Chi-square tests simply as a "measure of the degree of association or linkage between two variables". This means determining whether or not there is significant difference between the two variables. The measure normally used in

deciding this is by the value of the P. Normally, the test is significant if the value of P is less than 5%.

As part of the inferential statistical analysis performed for this purpose, I carried out Chi-square tests to see if there were significant differences between the respondents' answers based on variables such as gender, age and employment status and, as the table below suggests, some significant difference do exist in some cases while the difference is insignificant in others

Table 8.4.1: Access to Conventional Bank Accounts Classified by Respondents' Gender

Gender	Post Office	Current Account	Savings Accounts	Time Deposit	ISAs	Other
	N(%)	N(%)	N(%)	N(%)	N(%)	N(%)
Male	23(17.2)	115(85.8)	39(29.1)	6(4.5)	0(0)	1(8)
Female	43(35.5)	96(79.3)	24(19.8)	2(1.7)	1(8)	0(0)
P-value	0.001	0.171	0.087	0.196	0.292	0.339

The above table presents the Chi-square test of the responses of the sample based on gender.

The objective here is to see if there are differences between the respondents' access to conventional finance based on gender.

By looking at the results of the analysis carried out in the above table, one can see that there are some significant differences in the responses given by respondents, especially in the case of their access to Post Office account (P-value is less than 0.05) as the number of females accessing this account is almost twice that of males. This explains

the fact that most of those accessing Post Office accounts are single mothers on Income Support who have been forced by the Benefits Office to open such accounts in order to receive their benefits Males do not normally face this problem as it is the mother who usually raises the children when family break-down takes place. It is very difficult, if not impossible, for a single parent to work and raise children and that may be the major reason why a lot of the single mothers who participated in our study were on Income Support and had more Post Office accounts than their male counterparts.

Table 8.4.2: Access to Conventional Bank Accounts According to Respondent's Age

Age	Post Office	Current Accounts	Savings Accounts	Time Deposit	ISAs	Other
	N(%)	N(%)	N(%)	N(%)	N(%)	N(%)
16-25	11(18.6%)	50(84.7%)	13(22%)	1(1.7%)	1(1.7%)	0(0%)
26-34	12(21.4%)	49(87.5%)	19(33.9%)	3(5.4%)	0(0%)	1(1.8%)
35-49	31(31.3%)	83(83.8%)	21(21.2%)	3(3%)	0(0%)	0(0%)
50+	12(30%)	28(70%)	10(25%)	1(2.5%)	0(0%)	0(0%)
P-value	0.256	0.129	0.330	0.714	0.345	0.317

According to the above table, I can confidently say that there are no significant differences between respondents regarding their access to basic conventional bank accounts as far as age is concerned. This simply means that access to conventional bank accounts was not significantly affected by the respondent's age.

Table 8.4.3: Access to Conventional Bank Accounts Classified by Respondents' Ethnicity

Ethnicity	Post Office	Current Accounts	Savings Accounts	Time Deposit	ISAs	Other
	N(%)	N(%)	N(%)	N(%)	N(%)	N(%)
Somali	44(27.7)	135(84.9)	33(20.8)	2(1.3)	0(0)	0(0)
Non Somali	22(22.9)	76(79.2)	30(31.3)	6(6.3)	1(1.1)	1(1.1)
P-value	0.401	0.240	0.60	0.027	0.195	0.195

As the above table shows, there is a significant difference (P-value is 0.027) between respondents regarding their access to conventional bank accounts caused by their ethnicity. According to this table, significant difference only exists between respondents with regard to their access to Time deposits, where there are far fewer Somalis than the non-Somalis. This supports our previous supposition that Somalis are more religious and less financially literate. Another explanation could be that Somalis represent one of the poorest Muslim communities and one of the least integrated as the majority have recently arrived the UK.

Table 8.4.4: Access to Conventional Finance Classified by Respondents' Length of Stay

Length stay	Post Office N(%)	Current Accounts N(%)	Savings Accounts N(%)	Time Deposit N(%)	ISAs N(%)	Other N(%)
Less than 5yrs	14(26.9)	40(76.9)	9(17.3)	1(1.9)	1(1.9)	0(0)
5-20 yrs	48(30.2)	133(83.6)	33(20.8)	1(6)	0(0)	1(6)
20 yrs+	4(9.1)	38(86.4)	21(47.7)	6(13.6)	0(0)	0(0)
P-value	0.018	0.421	0.00	0.00	0.141	0.737

As this table suggests, there are some significant differences between respondents as far as length of stay is concerned. For instance, access to Post Office accounts varies between those who have been in the UK for less than 20 years and those who have been here for more than 20 years.

This fact is explained by the P-value which is 0.018. This significant difference could be attributed to the fact that as people stay longer and get integrated into the British work force, they tend to be more involved in the financial system and therefore do not have to open very basic accounts such as that of the Post Office. This also reinforces our previous assertion that the holders of Post Office accounts are usually people at the bottom of the financial services ladder who are forced to open this account by the Benefits Agency to reduce the administrative cost associated with paying those claiming benefits. Another significant difference exists between recent arrivals and those who have been in the UK for 20 years or so as far as Time -deposits and savings are

concerned as having such accounts is directly related to the period of stay. Interesting though this may be, it is expected and not surprising

Table 8.4.5: Access to Conventional Finance Classified by Respondents' Marital Status

Marital status	Post Office	Current Accounts	Savings Accounts	Time Deposit	ISAs	Other
	N(%)	N(%)	N(%)	N(%)	N(%)	N(%)
Married wc*	20(22.2)	77(85.6)	23(25.6)	3(3.3)	0(0)	0(0)
Divorced wc	16(42.1)	32(84.2)	5(13.2)	0(0)	0(0)	0(0)
Widow/sep**	13(41.9)	22(71)	5(16.1)	0(.0)	0(0)	0(0)
Single	17(17.7)	80(83.3)	30(31.3)	5(5.2)	1(1)	1(1)
P-value	0.004	0.309	0.102	0.308	0.645	0.648

* Married with children

** Widowed or separated

This table suggests that the only significant difference between respondents is in relation to access to Post Office accounts, where those in the widowed or divorced categories have a far higher percentage of access to Post Office accounts compared to those in the single or the married categories. As I mentioned previously, those who are divorced with children tend to be single mothers claiming benefits who cannot work due to their family commitments and they are the ones with Post Office accounts into which the authorities pay their benefits.

Table 8.4.6: Access to Conventional Finance Classified by Respondents' Educational Level

Education level	Post Office	Current Accounts	Savings Accounts	Time Deposit	ISAs	Other
	N(%)	N(%)	N(%)	N(%)	N(%)	N(%)
None	25(44.6)	39(69.6)	3(5.4)	1(1.8)	0(0)	1(1.8)
GCSE	13(26)	42(82)	8(16)	0(0)	0(0)	0(0)
A-levels	8(16.3)	43(87.8)	12(24.5)	0(0)	1(2)	0(0)
Diploma+	20(20)	87(87)	40(40)	7(7)	0(0)	0(0)
P-value	0.002	0.030	0.00	0.038	0.239	0.314

This table interestingly shows that there are significant differences between respondents as far as access to certain accounts, such as Post Office accounts, current account, savings accounts and Time-deposits are concerned. For instance, people who have no formal educational qualifications have more Post Office accounts than those with a higher level of education. This is very much expected as having a Post Office account is an obvious indicator of high financial exclusion and it is quite natural that people who have no formal education would be more financially excluded than those with a better standard of education who might be more financially literate and have better employment prospects. Again, with regard to current accounts, people with a higher level of education tend to have a higher level of access to these accounts than those with no formal education (87% compared to 69%). Similarly, a significant difference exists between respondents in terms of accessing more sophisticated accounts, such as Time deposits and it is obvious that only 1.8% of those people with no formal education have access to such accounts as opposed to 7% of those with some kind of advanced educational qualification.

Table 8.4.7: Access to Conventional Finance Classified by Respondents' Employment Status

Employment status	Post Office	Current Accounts	Savings Accounts	Time Deposit	ISAs	Other
	N(%)	N(%)	N(%)	N(%)	N(%)	N(%)
Self-employ	8(25.8)	28(90.3)	17(54.8)	4(12.9)	0(0)	1(3.3)
Employed	10(13.2)	68(89.5)	28(36.8)	3(3.9)	1(1.3)	0(0)
Unemployed	46(35.7)	99(76.7)	14(10.9)	0(0)	0(0)	0(0)
Others	2(10.5)	16(84.2)	4(21.1)	1(5.3)	0(0)	0(0)
P-value	0.002	0.074	0.00	0.002	0.500	0.058

This table suggests that there are significant differences between respondents as far as access to Post Office accounts is concerned. Only 13% of the employed access Post Office accounts while 36% of the unemployed do. The same is true for savings and Time-deposit accounts where 55% of the self- employed and 37% of the employed have such accounts compared to only 10% of the unemployed accessing savings accounts and none of the unemployed has a Time-deposit account. Again this confirms our long-held conviction that having a Post Office accounts suggests a high level of illiteracy, unemployment and low income as I have witnessed in almost all the analysis I have carried out.

Table 8.4.8: Access to Conventional Finance Classified by Respondents' Annual Income

Annual income	Post Office Current Accounts	Savings Accounts	Time Deposit	ISAs	Other
	N(%)	N(%)	N(%)	N(%)	N(%)
Less 5,000	18(27.7)	46(70.8)	8(12.3)	1(1.5)	0(0)
5000 - 9,999	24(29.6)	69(85.2)	10(12.3)	1(1.2)	1(1.3)
10,000-14,999	14(28.6)	41(83.7)	14(28.6)	0(0)	0(0)
15,000+	10(16.7)	55(91.7)	31(51.7)	6(10)	0(0)
P-value	0.315	0.017	0.00	0.006	0.541

According to this table, there are significant differences between respondents regarding their access to current and savings accounts. The table suggests that 92% of those earning more than £15,000 had current accounts while 71% of those earning less than £5,000 had such accounts. Similarly, 10% of those with higher incomes had Time-deposits as opposed to only 1% of the low earners. The differences on all the other products are insignificant as the P-value is more than 0.05 in each case.

Table 8.5: Reasons Why Less Affluent UK Muslims Do Not Access Conventional Financial Products on Offer.

Reason of not accessing conventional financial products	Count	Percent
Do not want to deal with interest	138	68.3
Do not need to borrow	26	12.9
Too poor to get the facility	28	13.9
Do not know how to go about it	8	4.0
Tried, but did not succeed	1	0.4
Other reason	1	0.4

This table presents the reasons why respondents do not access the basic conventional financial products on offer, such as bank accounts, and as the above table shows, the majority of respondents (68.3%) avoided these products on religious grounds. A much lower number (12.9%) gave not needing to borrow as the reason for not accessing these products and 13.9% said they were too poor to access these facilities. Only 4% said they did not know how to go about it and 0.4% said they had tried, but had not succeeded or gave another reason.

Given the fact that the main reason for abstaining from accessing conventional financial products was religious grounds, one would expect to see an unprecedented demand for *Shari'a*-compliant financial products, all else being equal. According to much of the literature on the introduction of Islamic finance in the UK, it was a highly expected

outcome and one of the key objectives of introducing Islamic finance in the UK. However, it is the main purpose of this study to see how significantly the introduction of *Shari'a*-compliant financial products has improved the financial inclusiveness of the UK Muslim community and we hope to find a reasonable conclusion on this matter upon completion of all the analysis and after writing the conclusions

8.6 ACCESS TO INFORMAL FINANCE.

As part of the survey questionnaire, I collected data on the level of access that less affluent UK Muslims have to finance organized around families and friends instead of conventional, formal finance accessed through banks or building societies. In the coming sections, I will be looking at the level of access to informal finance as it is generally expected that less affluent UK Muslims run some sort of a shadow economy, where the interaction is mainly between family and friends, instead of dealing with the formal finance industry. The objective is to see the extent to which this informal financial service is preferred by this community and the underlying reasons for this preference.

Table 8.6.1: Respondent's Access to Informal Financial Services such as *Hawala* and Informal Saving Schemes.

Type of product	Count	Percent
	Yes	Yes
Informal savings-family/friends	157	62
Informal money transfer-<i>hawala</i>	192	75.3
Short-term informal loans-FF	113	44.3
Informal business financing-FF	45	17.8
Other clan-tribe support	26	10.2

The above table shows that 157 out of the 255 respondents who participated in the questionnaire used informal saving schemes organized through family and friends. This represents 62% of the sample respondents, which is relatively high and shows that the less affluent UK Muslim communities employ informal saving schemes to a large extent. Also, 75% of respondents used *hawala*(money transfer) when remitting funds instead of sending them through formal channels such as banks and building societies.

A relatively high number (44%) of the people who participated in the questionnaire accessed short-term finance loans at some point. The facts presented in the above table clearly show that less affluent UK Muslims strongly prefer informal finance to conventional finance.

There are many reasons for this community's preference of this type of products over formal finance including the following:

1. Lack of trust in the formal, conventional UK financial institutions exacerbated by the recent tragic events in the UK in 2005.

2. Lack of the necessary financial sophistication in accessing these products. Dealing with financial services such as banks requires a certain level of financial literacy and, as I discussed in Chapter Seven, the majority of less affluent UK Muslims are not very literate and the high illiteracy rates among these communities is one of the key reasons why they avoid dealing with formal, conventional financial institutions and resort to informal financial services such as *hawala*(money transfer) and credit unions.

3. Religious reasons as many of them, especially the older generation, would avoid dealing with transactions involving interest. Again, as the table presented above suggests, religion is one of the major reasons why these respondents are prevented from accessing conventional financial services, such as banks, and are pushed towards informal financial services.

4. Convenience and ease of access as there is no form filling and no difficult questions. Another key reason why these people prefer informal finance is the ease and accessibility associated with it as there are very few formalities.

8.7 DIFFERENCES BETWEEN THE RESPONDENTS IN ACCESSING INFORMAL FINANCIAL SERVICES

In the following section, I will analyze the respondents' answers to their access to informal financial services using Chi-square tests to find out if significant differences exist between respondents in this respect prompted by the category they belong to such as their gender, age, ethnicity etc. As I have already explained in previous sections, Chi-square tests attempt to establish these differences by calculating the P-value which shows the degree of association between the two variables. If the P-value is less than 0.05, I can conclude that there is significant difference.

Table 8.7.1: Access to Informal Finance Classified by Respondents' Gender

Gender	Informal saving scheme	Hawala	Informal loans	Informal finance	Bus. Other
	N(%)	N(%)	N(%)	N(%)	N(%)
Male	82(38.8)	107(79.9)	60(44.8)	28(21.2)	12(9)
Female	75(62)	85(70.2)	53(43.8)	17(14)	14(11.6)
P-value	0.897	0.076	0.876	0.137	0.491

According to this table, there are no significant differences between respondents in accessing informal finance as the Chi-square value represented by the P-value is more than 0.05. This means that accessing informal finance has little to do with gender, although other reasons may be relevant in causing differences among the respondents.

Table 8.7.2: Access to Informal Finance Classified by Respondents' Age

Age	Inform saving scheme	Hawala	Informal loans	Informal finance	Bus. Other
	N(%)	N(%)	N(%)	N(%)	N(%)
16-25	32(54.2)	34(57.6)	20(33.9)	5(8.6)	5(8.5)
26-34	31(55.4)	39(69.6)	17(30.4)	7(12.7)	8(14.3)
35-49	67(67.7)	80(80.8)	61(61.1)	26(26.3)	11(11.1)
50+	26(65)	38(95)	14(35)	7(17.5)	2(5)
P-value	0.21	0.00	0.00	0.028	0.480

This table clearly indicates that there are some significant differences caused by the respondent's age in accessing informal finance. For instance, older respondents are more likely to access *hawala*(money transfer) than younger respondents. One can see that 95% of people over 50 years old use *hawala*(money transfer) in transferring funds to their home-lands compared to 57% of those under 25 years old. There could be a simple explanation for this. As the older generation are more conservative and more connected to their native countries, they tend to rely on *hawala*(money transfer) as an informal means of transferring funds. The younger generation, on the other hand, would be less connected and thus less inclined to send money back to their homelands and even if they did so they would rather use formal means such as banks and building societies. Also, people in the 35-49 age group tend to take out more informal loans and informal business finance as the table depicts. The difference between this group and the others is significant as the P-value suggests (P-value=0.00) for informal loans and (0.028) for informal business loans. In both cases, people in this age group tend to access these products more.

One explanation for this would be the fact that age-wise this age group is usually the most active. Hence, they would be more enterprising and would have greater family commitments, such as raising children and starting up their own businesses, and would therefore take out more loans for personal as well as business reasons.

Table 8.7.3: Access to Informal Finance Classified by Respondents' Ethnicity

Ethnicity	Informal scheme	saving	Hawala	Informal loans	Informal Bus. finance	Other
	N(%)		N(%)	N(%)	N(%)	N(%)
Somali	107(67.3)		121(76.1)	88(55.3)	37(23.6)	22(13.8)
Non Somali	50(52.1)		71(74)	25(26)	8(8.3)	4(4.2)
P-value	0.016		0.701	0.00	0.002	0.013

According to this table, access to informal finance significantly varies between respondents as far as ethnicity is concerned. Informal savings, informal loans and other means of informal financial services, such as clan-tribe support funds, are where the significant differences appear, as the respective P-values show. This could be explained in various ways, but one of the most obvious and the simplest ways is by referring back to the various cultures of these communities. For instance, according to the UNDP report compiled by Omer (2002) Somalis heavily depend on *hawala* (money transfer) as follows:

The remittance companies are the sole international financial institutions operating in Somalia. They are a lifeline for many Somali families, a conduit for hard currency entering and leaving the country, as well as an instrument for trade and commerce both in Somalia and abroad

Other nationalities do not use it to the same extent, although *hawala*(money transfer) is common to all UK Muslims in general and to the less affluent in particular. Again the Somalis use informal saving and informal business financing more as the P-values according the Chi-square test represented by the P-value. As I have said previously, this

also reinforces our argument that Somalis do actually run some sort of a shadow economy in the UK and formalizing this economy would work to the benefit of everyone.

Table 8.7.4: Access to Informal Finance Classified by Respondents' Length of Stay.

Length of Stay	Informal saving scheme	Hawala	Informal loans	Informal finance	Bus. Other
	N(%)	N(%)	N(%)	N(%)	N(%)
Less than 5 yrs	23(44.2)	29(55.8)	21(40.4)	4(7.7)	5(9.6)
5-20 years	111(69.8)	132(83)	82(51.6)	37(23.6)	19(11.9)
20 +	23(44.2)	31(70.5)	10(22.7)	4(9.1)	2(4.5)
P-value	0.002	0.000	0.002	0.009	0.352

The above table clearly indicates that there are significant differences between respondents in accessing informal financial services as far as the length of stay is concerned, as the P-values suggest. The table also portrays some interesting information about these differences. For instance, people who have been in the UK for more than 5 years, but less than 20 years, are the ones who use informal saving schemes, send more money through *hawala*(money transfer), access more informal loans and employ more other types of informal financial services than any other group.

One explanation for this scenario is that these people have passed the familiarization stage as they are reasonably well-integrated and have some sort of income, either from employment or self-employment, and are still connected to their local communities where the majority of informal financial transactions are carried out. Also, this group has not yet been assimilated into the host communities where they would be disconnected from their

local communities and relatives back home as much as those who have been here for more than 20 years would probably be. This shows this group to be the typical users of informal financial services for the reasons explained above which was an expected outcome of this study.

Table 8.7.5: Access to Informal Finance Classified by Respondents' Marital Status

Marital Status	Informal saving scheme	Hawala	Informal loans	Informal Finance	Bus. Other
	N(%)	N(%)	N(%)	N(%)	N(%)
Married wc	49(54.4)	69(76.7)	44(48.9)	16(18)	9(10)
Divorced wc	31(81.6)	36(94.7)	22(57.9)	11(28.9)	1(2.6)
Single	54(56.3)	60(62.5)	35(36.5)	13(13.7)	14(14.6)
P-value	0.009	0.00	0.094	0.222	0.181

This table shows that there are some significant differences between respondents according to their marital status and such differences are most pronounced in informal savings and *hawala*(money transfer) as the P-values of these products suggest. It is interesting to note that the divorced with children, who are usually represented by single females with children, tend to be more involved in informal savings as they are normally financially illiterate and are not comfortable with the formal financial system with its complicated forms and identity checks. Again, using *hawala*(money transfer) is a lot easier and more convenient for this group and the higher access presented by the above table is logically expected.

Table 8.7.6: Access to Informal Finance Classified by Respondents' Employment Status

Employment Status	Informal saving scheme	Hawala	Informal loans	Informal Finance	Bus. Other
	N(%)	N(%)	N(%)	N(%)	N(%)
Self-employed	25(80.6)	29(93.5)	20(64.5)	16(51.6)	4(12.9)
Employed	38(50)	52(68.4)	21(27.6)	7(9.3)	5(6.6)
Unemployed	84(65.1)	94(72.9)	64(49.6)	21(16.4)	17(13.2)
Others	10(52.6)	17(89.5)	8(42.1)	1(5.3)	0(0)
P-value	0.015	0.019	0.002	0.00	0.192

According to this table, there are significant differences in the respondents' access to informal finance, determined by their employment status, as the P-values suggest. One such significant difference exists in the informal saving scheme where the self-employed account for nearly 81% while the employed account for only 50%. One of the explanations to this scenario could be that the self-employed are wary of declaring their earnings to avoid heavy taxes and therefore tend to use more informal saving scheme as opposed to formal saving where their earnings would be subject to a higher tax rate. A similar picture exists in the accessing of *hawala* (money transfer) where 94% of the self-employed seem to be in favour of *hawala* (money transfer) while those from the employed group are far less (68%). Similar differences also exist between the self-employed and the employed in informal loans and informal business loans.

Table 8.7.7: Access to Informal Finance Classified by Respondents' Educational Level

Qualifications	Informal saving scheme	Hawala	Informal loans	Informal Finance	Bus. Other
	N(%)	N(%)	N(%)	N(%)	N(%)
None	38(67.9)	47(83.9)	26(46.4)	11(19.6)	6(10.7)
GCSE	32(64)	39(78)	27(54)	12(24.5)	6(12)
A-levels	32(65.3)	36(73.5)	24(49)	6(12.2)	6(12.2)
Diploma+	55(55)	70(70)	36(36)	16(16.2)	8(8)
P-value	0.366	0.258	0.155	0.416	0.814

There are no significant differences between respondents as far as their level of education is concerned, as the above table suggests. This shows how popular informal finance is among less affluent UK Muslims and that it is accessed by all classes of this community, regardless of their level of education.

Table 8.7.8: Access to Informal Finance Classified by Respondents' Annual Income

Annual Income	Informal saving scheme	Hawala	Informal loans	Informal Bus.finance	Other
	N(%)	N(%)	N(%)	N(%)	N(%)
Less 5,000	38(58.5)	43(66.2)	30(46.2)	8(12.3)	7(10.8)
5000 - 9,999	51(63)	69(85.2)	37(45.7)	11(13.8)	6(7.4)
10,000-14,999	29(59.2)	32(65.3)	27(55.1)	15(30.6)	7(14.3)
15,000+	39(65)	48(80)	19(31.7)	11(18.6)	6(10)
P-value	0.862	0.015	0.096	0.051	0.657

It seems from this table that access to informal finance does not differ much between respondents, as the P-values clearly show. The only noticeable significant difference exists in *hawala*(money transfer) where 80% of those earning more than £15,000 send *hawala*(money transfer) as opposed to 66% of those earning less than £5,000 who remit funds using *hawala*(money transfer). This clearly shows that there is a direct correlation between the level of income and the level of funds transferred through *hawala*(money transfer). This reinforces our former contention that the majority of the less affluent UK Muslim communities prefer *hawala*(money transfer) to banks and other formal means of transferring funds.

Furthermore, this confirms that sending funds home to support family members is common among the less affluent UK Muslim communities as it is among all Muslims, as supporting both immediate and extended family members is a basic religious duty.

The analysis carried out so far has provided satisfactory responses to the first main research question and its two sub-questions. However, the second research question and its three sub-questions will be dealt with in the next part of the analysis where the less affluent UK Muslims' awareness, perception and access to *Shari'a*-compliant financial products on offer in the UK is looked at by analyzing the responses given by the respondents who participated in the survey questionnaire.

Perhaps, it is worth reminding ourselves at this point what the second main research question and its sub-questions were:

2. What are the attitudes of the less affluent UK Muslim communities towards the existing *Shari'a*-compliant financial products and to what extent does this attitude influence their banking and home-purchasing behaviour?

a) What is the level of awareness of the less affluent UK Muslim communities regarding the existing *Shari'a*-compliant financial products in the UK?

b) What is the perception of the less affluent UK Muslim communities regarding the existing *Shari'a*-compliant financial products?

c) Has the introduction of *Shari'a*-compliant financial products in the UK significantly enhanced the level of access to financial products of less affluent UK Muslims?

On completion of the final part of the survey questionnaire (Part E), I hope to find reasonable and relevant answers to this research question and its sub-questions.

Table 8.8: RESPONDENTS' KNOWLEDGE OF AND ACCESS TO SCFP* IN THE UK

Question	Count	Percent
	Yes	Yes
Have you heard about the <i>Shari'a</i> -compliant financial products on offer in UK?	142	56
Do you have a <i>Shari'a</i> -compliant account	34	13
Did you switch your existing conventional mortgage to a <i>Shari'a</i> -compliant one	3	1
Are you in Business	27	11
Did you approach the institutions providing <i>Shari'a</i> -compliant products	5	2

***Shari'a compliant financial products**

2a)-How well aware are less affluent UK Muslims of the *Shari'a*-compliant financial products on offer?

The above table and all the following tables are aimed at providing satisfactory answers to the final part of the research questionnaire (Part-E) where the level of awareness of less affluent UK Muslims about the available *Shari'a*-compliant financial products, their perception of them and the level of access is examined.

This table in particular deals with the second sub-question of the second main research question and I have therefore started with the question under discussion.

The data presented above suggests that 142 of the 255 respondents (56%) knew about the existence of *Shari'a*-compliant financial products. This represents more than half of

the respondents. However, only 34 (13%) of those who had heard about the existing Islamic financial institutions had a *Shari'a*-compliant bank account.

Similarly, only 1% of respondents switched their conventional mortgage to a *Shari'a*-compliant one and a mere 2% of the 27 respondents who were in business sought *Shari'a*-compliant business finance. The above numbers indicate that the level of awareness is relatively low as nearly 50% of them did not know of the existence of *Shari'a*-compliant financial products in the UK. Another important discovery from this analysis was that even those who knew about it were not very interested, as only 3% of those who had heard about these financial products tried to access them. This clearly shows that *Shari'a*-compliant finance available in the UK does not appeal to less affluent UK Muslims, whatever the reason may be. However, the questionnaire contains certain questions aimed at finding out the main reasons why less affluent UK Muslims are reluctant to access the *Shari'a*-compliant financial products currently on offer. These questions will be addressed in the next table.

Table 8.9: Reasons Why Less Affluent UK Muslims Do Not Access SCFP*

Reason	Count	Percent
Not different from conventional	80	36.40
Poor service	45	15.9
Denied access	23	10.5
Other	80	36.4
Total	220	100

*: *Shari'a*-compliant financial products

2c) Has the introduction of Islamic finance in the UK significantly enhanced the financial inclusiveness of less affluent UK Muslims?

As I have explained in the previous analysis, very few less affluent UK Muslims are accessing the *Shari'a*-compliant financial products currently on offer. The questions presented in the above table were devised in order to understand the main reasons for this.

As this table suggests, 36% of respondents said their main reason for not dealing with UK-based financial institutions providing *Shari'a*-compliant financial products is that they did not feel there was a real difference between these banks and their conventional counterparts. A similar number also said they had other reasons, the most cited being that they had not yet got them, but were thinking of doing so at some stage. Almost 16% of them gave the reason for not doing business with these institutions and not accessing their products due to the perceived poor service of these financial institutions. About 11% of these respondents stated that their reason for not using *Shari'a*-compliant financial products was that they had tried, but their applications were rejected. Overall this entire table presents some important information regarding why the *Shari'a*-compliant financial products on offer in the UK are not attracting less affluent Muslims in UK. Surely, this is an important sector of the target market for those institutions providing Islamic financial products in the UK and in my opinion; it is time they tackled these issues by adjusting their marketing strategy to make it more inclusive and appealing to the less affluent UK Muslim community.

8.10 RESPONDENT'S KNOWLEDGE AND ACCESS TO SCFP* CLASSIFIED BY RESPONDENTS' CHARACTERISTICS

As I have discussed in the previous table, less affluent UK Muslims are not accessing the available *Shari'a*-compliant financial products to the extent that one would have hoped and some of the reasons for their dissatisfaction have also been discussed earlier in a separate table. However, the respondents are not homogeneous in all aspects and do possess some varying characteristics which would influence their responses. It therefore makes sense to study in more depth how these different characteristics result in different answers and how significant they may be.

The following tables will explore these differences and their level of significance.

Table 8.10.1: Knowledge of and Access to *Shari'a*-Compliant Finance Classified by Respondents' Gender

Question	Gender		P-value
	Male N(%)	Female N(%)	
Heard about Islamic finance in UK?	82(61.2)	60(49.6)	0.062
Have <i>Shari'a</i> -compliant account?	19(14.2)	15(12.4)	0.676
Switched conv.mort to SCM*?	3(18.8)	0(0.0)	0.254
Are you in Business?	23(17.4)	4(3.3)	0.000
Did you seek SCBF*?	4(18.2)	1(25.0)	0.750

According to this table there are no significant differences between respondents' answers regarding their knowledge and access to *Shari'a*-compliant finance, with the exception of those in business where males seem to be far more enterprising than their female counterparts. As far as the male respondents are concerned, 17% of those who participated in the survey had their own business while only 3% of the females owned their own business. This is a good indication that business, among less affluent UK Muslims, is really dominated by males as in many other British ethnic minority communities.

Table 8.10.2 Knowledge of and Access to *Shari'a*-Compliant Finance Classified by Respondents' Age

Question	Age				P-value
	16-25	26-34	35-49	50+	
	N(%)	N(%)	N(%)	N(%)	
Heard about Islamic finance in UK?	19(32.2)	32(57.1)	63(63.6)	27(67.5)	0.000
Have <i>Shari'a</i>-compliant account?	6(10.2)	8(14.3)	17(17.2)	3(7.5)	0.394
Switched conv.mort to SCM**?	2(18.8.)	0(0.0)	1(16.7)	4(35)	0.598
Are you in Business?	3(5.1)	6(10.7)	9(9.3)	9(22.5)	0.047
Did you seek SCBF*?	0(0.0)	0(0.0)	4(44.4)	1(11.1)	0.113

**Shari'a*-compliant business finance

** *Shari'a*-compliant mortgage

The above table shows that as far as age is concerned, the respondents' answers did not differ much, apart from the first question in which they were asked if they had heard

about the existing Islamic finance in the UK. It seems from the available data that out of the younger respondents (16-25) only 32% had heard about these products compared to 68% of those over 50 years old. This is more than twice the younger respondents. It could well be that this is due to the fact the older respondents are more religiously aware and tend to be interested in matters concerning their faith. Another explanation could be that the older group is more informed generally about financial matters than their younger counterparts who would not be that finance oriented.

Table 8.10.3: Knowledge of and Access to *Shari'a*-Compliant Finance Classified by Respondents' Ethnicity

Question	Ethnicity		P-value
	Somali	Non Somali	
	N(%)	N(%)	
Heard about Islamic finance in UK?	86(54.1)	56(58.3)	0.508
Have <i>Shari'a</i> -compliant account?	23(14.5)	11(11.5)	0.494
Switched conv.mort to SCM**?	0(0.0)	3(14.3)	0.684
Are you in Business?	29(12.7)	7(7.3)	0.173
Did you seek SCBF*?	5(26.3)	0(0.0)	0.131

* *Shari'a*-compliant business finance

** *Shari'a*-compliant mortgage

According to this table, there are no significant differences between respondents as far as ethnicity is concerned.

Table 8.10.4: Knowledge of and Access to *Shari'a*-Compliant Finance Classified by Respondents' Length Of Stay

Question	Length-stay			P-value
	Less 5 yrs	5-20 yrs	20+ yrs	
	N(%)	N(%)	N(%)	
Heard about Islamic finance in UK?	22(42.3)	93(58.5)	27(61.7)	0.088
Have <i>Shari'a</i> -compliant account?	7(13.5)	20(12.6)	7(15.9)	0.847
Switched conv.mort to SCM**?	9(17.3)	2(25.0)	1(7.1)	0.24
Are you in Business?	3(5.9)	19(12)	5(11.4)	0.46
Did you seek SCBF*?	0(0.0.)	4(21.1)	1(20)	0.727

* *Shari'a*-compliant business finance

** *Shari'a*-compliant mortgage

Similarly, this table suggests that there are no significant differences between respondents due to their length of stay.

Table 8.10.5: Knowledge of and Access to *Shari'a*-Compliant Finance Classified by Respondents' Education

Knowledge	Qualifications				P-value
	None N(%)	GCSE N(%)	A-levels N(%)	Diploma+ N(%)	
Heard about Islamic finance in UK?	33(58.9)	22(44)	29(59.2)	58(58)	0.325
Have <i>Shari'a</i> -compliant account?	5(8.9)	8(16)	9(18.4)	12(12)	0.48
Switched conv.mort to SCM**?	0(0.0)	1(33.3)	1(33.3)	1(6.7)	0.431
Are you in Business?	3(5.4)	3(6)	2(4.1)	19(19.4)	0.05
Did you seek SCBF*?	0(0.0)	1(33)	0(0.0)	4(22.2)	0.642

**Shari'a*-compliant business finance

** *Shari'a*-compliant mortgage

Again, this table suggests that there are no significant differences between respondents as far as education is concerned.

Table 8.10.6: Knowledge of and Access to *Shari'a*-Compliant Finance Classified by Respondents' Employment Status

Knowledge	Employment				P-value
	Self-employ	Employed	Unemployed	Others	
	N(%)	N(%)	N(%)	N(%)	
Heard about Islamic finance in UK?	29(93.5)	45(59.2)	64(49.6)	4(21.1)	0.000
Have <i>Shari'a</i>-compliant account?	4(12.9)	10(13.2)	18(14)	2(10.5)	0.981
Switched conv.mort to SCM**?	1(25.0)	1(6.3)	1(50.0)	3(16.3)	0.180
Are you in Business?	24(77.4)	2(2.7)	0(0.0)	1(5.3)	0.000
Did you seek SCBF*?	4(16.7)	1(100)	0(0.0)	5(19.2)	0.103

**Shari'a*-compliant business finance

** *Shari'a*-compliant Mortgage

This table indicates that there are some significant differences between respondents' answers regarding two questions. Firstly, when they were asked if they had heard about the existing *Shari'a*-compliant financial products, 94% of the self-employed respondents said they had heard about these products while only 21% of the respondents classified as 'others' said they knew about these products. This represents a significant difference whatever the cause of this difference may be.

Table 8.10.7: Knowledge of and Access to *Shari'a*-Compliant Finance Classified by Respondents' Marital Status

Knowledge	Marital status				P-value
	Single	Married wc	Divorced wc	Divorce/ separate	
	N(%)	N(%)	N(%)	N(%)	
Heard about Islamic finance in UK?	42(43.8)	56(62.2)	27(71.1)	3(9.7)	0.154
Have <i>Shari'a</i> -compliant account?	8(8.3)	15(16.7)	8(21.1)	3(9.7)	0.154
Switched conv.mort to SCM**?	2(20.0)	1(10.0)	0(0.0)	0(0.0)	0.68
Are you in Business?	6(6.3)	15(17.0.)	2(5.3)	4(12.9)	0.070
Did you seek SCBF*?	2(40)	2(13.3)	0(0.0)	1(25.0)	0.515

* *Shari'a*-compliant business finance

** *Shari'a*-compliant mortgage

According to this table, there are no significant differences in the responses as the P-values suggest.

Table 8.10.8: Knowledge of and Access to *Shari'a*-Compliant Finance Classified by Respondents' Income

Knowledge	Annual Income				P-value
	Less than 5,000	5,000-9,999	10,000-14,999	15,000+	
	N(%)	N(%)	N(%)	N(%)	
Heard about Islamic finance in UK?	24(36.9)	43(53.1)	29(59.2)	46(76.7)	0.000
Have <i>Shari'a</i> -compliant account?	5(7.7)	11(13.6)	9(18.4)	9(15.0)	0.390
Switched conv.mort to SCM**?	1(100)	1(50.0)	0(0.0)	1(5.9)	0.021
Are you in Business?	3(4.7)	3(3.7)	4(8.2)	17(28.8)	0.000
Did you seek SCBF*?	0(0.0)	0(0.0)	2(50.0)	3(17.6)	0.301

**Shari'a*-compliant business finance

** *Shari'a*-compliant Mortgage

This table indicates that there are some significant differences between the answers given by respondents according to their level of income. For instance, 77% of people with an income of more than £15,000 said that they were aware of the available *Shari'a*-compliant financial products, while only 37% of those with an income of less than £5,000 knew about such products. This is an expected outcome as those with higher incomes would be more financially aware and stand a better chance of dealing with financial

institutions. Another question which the respondents answered differently was about switching their conventional mortgage.

Table 8.11 Respondent's Perception of *Shari'a* Compliant Finance on Offer in the UK

Statement	Percent of agreement*
Islamic mortgages are more expensive than their conventional counterparts	41
Availability of <i>Shari'a</i> -compliant finance will enhance UK Muslim's access to finance	77
A large number of UK Muslims are not accessing conventional finance due to their faith and would do so if they had a real alternative	82
<i>Shari'a</i> -compliant financial products on offer in the UK are not much different from their conventional counterparts	39
UK Muslims should switch their banking and home-financing to <i>Shari'a</i> -compliant finance even if they have to pay more	26
Majority of UK Muslims believe that providers of <i>Shari'a</i> -compliant finance in the UK are more aggressive and profiteering than their conventional counterparts	44
The <i>Shari'a</i> -compliant financial products on offer in the UK are selective and cater for the rich only	59

*: Agree or strongly agree

2b) What do less affluent UK Muslims think of *Shari'a*-compliant financial products on offer in the UK?

This is the second sub-question of the second main research question and the objective is to analyze less affluent UK Muslims' perceptions about the *Shari'a*-compliant financial products currently on offer.

It is obvious from the above table that a large number of less affluent UK Muslims believe that *Shari'a*-compliant mortgages are much more expensive than their conventional counterparts which is one of the main reasons for the low up-take of these products. Although it is not the only reason why Islamic financial products on offer in the UK are not as popular as one would have hoped, pricing is a significant factor in determining the actual demand for such products. As our table indicates 112 (44%) of the 255 people who took part in the survey think it is a major obstacle. Another interesting point portrayed by our table is that many less affluent UK Muslims would be more financially included if convincing, customer-driven and *Shari'a*-compliant financial products were brought to the market. Seventy-seven percent of the respondents said that if Muslims had proper Islamic finance, they would buy more homes, start more businesses and would be more involved and active in the financial services market. An implied argument in this response is that the reason why less affluent UK Muslims are not accessing *Shari'a*-compliant finance is because they are not yet convinced about the pricing, distinctiveness or the suitability of the *Shari'a*-compliant financial products currently on offer in the UK to meet their financial services needs. A large number of respondents (82%) believe that many Muslims are financially excluded simply because they do not want to deal with interest, but would be financially included if they had a real alternative. This implies that the majority of less affluent Muslims are still financial excluded because

the *Shari'a*-compliant finance currently on offer has not yet convinced them to change their minds and become involved in them. This again concurs with our previous suggestion that people are not sure about the genuineness of such products.

On the question of distinctiveness, a sizable number of respondents (39%) are of the opinion that the *Shari'a*-compliant financial products on offer in the UK are not very different from their conventional counterparts, but are simply using Arabic terms to suggest *Shari'a* compliance. Again, although it is not a particularly high number, a good number of the UK Muslim community are not yet convinced about the uniqueness of these products as the above analysis indicates.

The reasons for this scepticism are manifold and could be attributed to lack of knowledge or lack of information or both. What one can deduce from this survey is that this is a real scepticism which is having a tremendous effect on the accessibility of these products and the onus is upon the providers of such products to invest in serious educational and promotional programmes at community level

Another interesting revelation from this survey was the fact that less affluent UK Muslims are of the opinion that religiosity alone is not enough to persuade people to access Islamic finance. Only 26% said Muslims should use *Shari'a*-compliant finance even if it means paying more for the same service. It seems that the message is clear here that the providers of *Shari'a*-compliant finance cannot capitalize on people's religiosity alone without being competitive, distinctive and genuine

In terms of the suitability of the *Shari'a*-compliant financial products to the financial services needs of less affluent UK Muslims, nearly 60% of respondents believe that the providers of such products are more aggressive and profiteering than their conventional counterparts. This obviously suggests that one of the major reasons why less affluent UK

Muslims are still financially excluded in the UK, despite the existence of at least five major financial institutions providing *Shari'a*-compliant finance in the UK, is that they have a negative perception of these organizations. I do not know whether this negative perception is justified or not, but what is clear is that it is greatly affecting people's attitudes towards the *Shari'a*-compliant finance currently on offer in the UK.

8.12 FACTOR ANALYSIS

"Factor analysis seeks to discover if the observed variables can be explained largely or entirely in terms of a much smaller number of variables called the factors" (www.psych.cornell.edu, accessed April 2008).

As there are seven statements, all analyzing the respondents' perceptions towards the *Shari'a*-compliant financial products currently on offer in the UK, the researcher felt that reducing these statement into more a manageable number would enhance the analysis and would tell more about how respondents perceived these products. Hence, factor analysis is deemed to be relevant in this respect as the main task of factor analysis is to cluster the related group of variables through their common variance (Field, 2005). Simply put, this is a method of data reduction where large numbers of variables are reduced to just a few by classifying them according to the strength of the association between them. For factor analysis to be really useful, certain basic pre-conditions have to be met such as the sample size has to be reasonably large and a significant association between the variables (correlation coefficients) has to exist. According to some commentators, including Tabachnick and Fidell (2007), the reliability of the correlation coefficients will be tainted if the sample size is less than 100. Other commentators including Coakes, S.J and L.G Steed (2003) preferred a sample size of 200. It seems

that our sample meets this criterion as the final sample size is 255 respondents. An important step in this process is to decide the adequacy of our sample for factor analysis and we usually decide that through KMO and Bartlett's tests.

Table 8.12.1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.671
Bartlett's Test of Approx. Chi-Square Sphericity	318.070
df	21
Sig.	.000

According to the above table, the KMO value is 0.67 and Bartlett's test is significant as the p-value suggests ($P < 0.000$). I can therefore conclude that factor analysis is appropriate for this study. Once the researcher is convinced that factor analysis applies to his or her data; the next task is to choose the most suitable method of data extraction.

In this case, I have selected principle component analysis (PCA) as it is deemed to be the most suitable method for our data. Principal component analysis involves determining the patterns with the objective of studying the similarities and the differences among the components of the data set.

It is a way of identifying patterns in data, and expressing the data in such a way as to highlight their similarities and differences. Since patterns in data can be hard to find in data of high dimension, where the luxury of graphical

representation is not available, PCA is powerful tool for analyzing data (www.cs.otago.ac/student_tutorial, accessed April 2008).

I will now perform factor analysis based on Principal Component Analysis (PCA) and Varimax rotation with Kaiser Normalization as the following table suggests.

Table 8.12.2: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.367	33.821	33.821	2.367	33.821	33.821	2.182	31.178	31.178
2	1.532	21.888	55.709	1.532	21.888	55.709	1.520	21.721	52.899
3	.865	12.354	68.063	.865	12.354	68.063	1.061	15.164	68.063
4	.736	10.509	78.572						
5	.582	8.319	86.890						
6	.516	7.369	94.259						
7	.402	5.741	100.000						

Extraction Method: Principal Component Analysis.

According to Pallant (2002), the Eigen value has to be greater than 1.0 to be regarded as significant and to be used in determining the factors. The assumption here is that the Eigen values stand for the amount of total variation represented by the factors and this means that an Eigen value of 1.0 or above indicates a high level of variation (Field, 2005).

The above table shows that there are two factors with an Eigen value greater than 1.0, (2.367 and 1.532) and therefore our analysis resulted in a two-factor solution where the

seven factors were reduced to only two. Each explains a particular amount of variance in the items and in our case, factor one explains 33.82% while factor two explains 21.89% of the variance.

Table 8.12.3: Rotated Component Matrix (a) on the Perceptions of LAUM*

	Component	
	1	2
Q24 Islamic Mortgages are more expensive than their conventional counterparts	.713	.154
Q25 The availability of SCFP will enhance the UK Muslim's access to financial services such home-financing	.106	.806
Q26 Many Muslims are not accessing conventional finances due to faith, but would do so if they had a real alternative	.306	.687
Q27 SCFP on offer in the UK, such as home-financing, are no different from conventional - only wording difference	.712	-.234
Q28 UK Muslims should switch their banking and home-financing to SCFP even if they have to pay more	-.240	.610
Q29 Majority of UK Muslims think organisations providing SCFP are more aggressive and profiteering than conventional banks	.689	.160
Q30 SCFP on offer are selective and cater only for the rich who are just a minority of UK Muslims	.805	.028

Extraction Method: Principal Component Analysis.

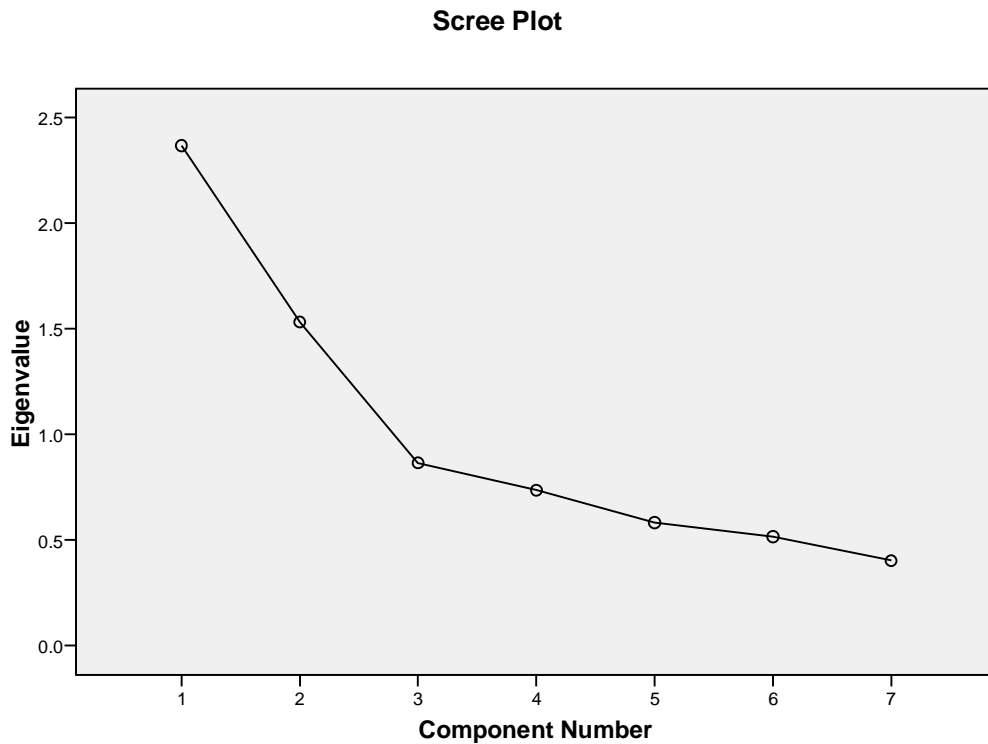
Rotation Method: Varimax with Kaiser Normalization.

*Less affluent UK Muslims

According to the rotated component matrix table (8.12.3) presented above, the seven statements have been reduced to only two and each component has a set of related factors determined by the Eigen values. For instance, the statements that relate to component one are (Q24, 27 and 29), while the rest of the statements relate to component two.

The factors in each component have some common characteristics and measure the same phenomenon. For instance, factors in component one deal with the scepticism expressed by the respondents about the *Shari'a*-compliant financial products on offer in the UK as the statements clearly show. The factors in component two on the other hand tell us something about the preference for *Shari'a*-compliant finance by less affluent UK Muslims and the statements in this category shed some light on how less affluent UK Muslims perceive the availability of *Shari'a*-compliant financial products as far as their access to financial products is concerned and how much they prefer them over conventional finance.

A detailed explanation of both components and the kind of message they carry will be presented separately in the interpretation section.



Also, the Scree plot, which is basically a graph of the Eigen values, shows that the seven variables could be reduced to only two as the graph slopes down steeply before becoming parallel to the horizontal line. It is therefore clear from the plot that there is only a two factor solution to this study.

8.12.4 Interpreting the factor analysis:

The final step in the factor analysis is to interpret the results of the analysis where the objective is simply to identify factors that cluster together and find the common thread between them. In the next few paragraphs, I hope to do just that.

The factor analysis carried out here indicates that there is a two-factor solution to the perception of less affluent UK Muslims of the *Shari'a*-compliant financial products in the UK, especially home-financing. These two factors can be summarized as follows:

- Factors analyzing the scepticism expressed by less affluent UK Muslims regarding the *Shari'a*-compliant financial products available to the less well-off UK Muslims in particular and to the UK Muslims in general. The scepticism factors are represented by the statements presented in table 7.12.4. As this table demonstrates, the level of agreement to most of the statements in this category is quite sizable (39-59%).

It is obvious from this table that there are various causes for the expressed scepticism although the end result is the same. For instance, in the first statement which reads *"Islamic mortgages are more expensive than their conventional counterpart"* the source of the scepticism is the price charged by the providers of such finance. This is putting off a lot of would-be customers among less affluent UK Muslims who cannot afford to use such products despite their preference for them. Hence, since the source of the scepticism may differ for each statement, I added a column for the comments as the table clearly shows.

Table 8.12.4: Factors Measuring the Scepticism Expressed By Respondents Towards *Shari'a*-Compliant Finance in the UK

Statement No.	Statement	Percent of agreement(comment
24	<i>Islamic mortgages are more expensive than their conventional counterparts</i>	41% (Scepticism relates to pricing)
27	<i>Shari'- compliant financial products on offer in UK are not much different from their conventional counterparts</i>	39% (Scepticism relates to compliance)
29	<i>The majority of UK Muslims believe that providers of Shari'a-compliant finance in the UK are more aggressive and profiteering than their conventional counterparts</i>	44% (Scepticism relates to the materialistic approach)
30	<i>The Shari'a-compliant financial products on offer in the UK are selective and cater for the rich only</i>	59% (scepticism relates to the lack of inclusive policies)

The table presents some crucial information about the scepticism expressed by respondents. A brief explanation has already been presented in the previous paragraph, but how these responses were influenced by the various characteristics of the respondents such as gender and age was not tackled in this table .These will be dealt with in the next section where some statistical tests such as Mann-Whitney and Kruskal-Wallis will be employed to analyze them.

Table 8.12.5: Factors Measuring Preference for *Shari'a*-Compliant Finance Expressed By the Respondents.

Statement No.	Statement	Percent of agreement(comment)
25	<i>Availability of Shari'a-compliant finance will enhance UK Muslim's access to finance</i>	77 % (The expectation is high, but has that materialised?)
26	<i>A large number of UK Muslims are not accessing conventional finance due to faith and would do so if they had a real alternative</i>	82 % (real alternative is the key word and the lack of it negates the outcome)
28	<i>UK Muslims should switch their banking and home-financing to Shari'a-compliant finance even if they have to pay more</i>	26 % (Is the religious motive enough?)

What is clear from the above analysis that I have carried out so far is that less affluent Muslims, who represent almost 73% of all UK Muslims are not accessing the *Shari'a*-compliant financial products on offer as one would have hoped. Interestingly, the respondents almost unanimously agreed on this point when the following statement was put to them:

“Availability of Shari'a-compliant finance will enhance UK Muslims' access to finance”.

Seventy-seven percent of respondents agreed or strongly agreed with this statement which clearly shows the high expectation that these respondents had of the introduction of Islamic finance in the UK. Similarly when another statement, which is closely related to this, was put to the same respondents, an even higher number (82%) agreed or strongly agreed according to the statement: "A large number of UK Muslims are not accessing conventional finance due to faith and would do so if they had a real alternative".

Again, this implies what the previous statement suggested, which is that *Shari'a*-compliant finance should persuade a lot of less affluent UK Muslims to access finance on a large scale as the major obstacle of 'incompatibility' with their belief is removed. These two factors no doubt measure the same phenomenon as they are closely related and simply measure the level of preference that respondents placed on *Shari'a*-compliant finance. The fact that these expectations were not met for a variety of reasons means that there is a huge gap between what the respondents were expecting and what is actually on offer as far as their perception to these products are concerned. Therefore, these factors could also be called the 'expectation gap factors'. What I mean by this term is that the hopes of these respondents were dashed by the existence of the other negative factors called the 'inconvenience factors' such as the uncompetitive pricing, close resemblance to conventional finance and the perceived materialistic approach where high net worth individuals of the UK Muslim population are the target market for the providers of *Shari'a*-compliant finance rather than the less affluent UK Muslims who are the majority according to many reports and various sources.

8.13 MANN-WHITNEY AND KRUSKALL-WALLIS ANALYSIS

It is apparent from the factor analysis carried in the earlier sections of this study that it resulted in a two-factor solution, each one measuring a different dimension of the perceptions of less affluent UK Muslims. Tables 7.12.4 and 7.12.5 respectively presented the factors explaining each phenomenon and the implications of the respondents' answers were briefly analyzed therein. One would expect the responses to be different according to the particular characteristics of the participants, such as their age and gender, however this information is not readily available from the said table and carrying out further analysis was therefore necessary.

Mann-Whitney and Kruskal-Wallis were thought to be the most suitable statistical analysis in this study and were hence used to see how participants' responses were influenced by the category to which they belong and how significant those differences were. In the following analysis utilizing Mann-Whitney and Kruskal-Wallis, it is obvious that the differences could tell us more when the related variables were identified and grouped to explain the underlying common theme.

Table 8.13.1: Mann-Whitney and Kruskal-Wallis Analysis

Independent variable	Categories	Inconvenience (Mean)	Disappointment (Mean)
Gender	Male	3.4552	3.6294
	Female	3.2982	3.6198
	P-value	.115	.397
Age	16-25	3.0678	3.6215
	26-34	3.4598	3.4940
	35-49	3.3948	3.7138
	50+	3.6938	3.6000
	P-value	.000	.162
Ethnicity	Somali	3.2757	3.6730
	Non-Somali	3.5547	3.5451
	P-value	.002	.037
Years in UK	Less than 5 yrs	3.1394	3.5513
	Between 5-20 years	3.4093	3.6813
		3.5625	3.5076
	More than 20 yrs	.034	.052
	P-value		
Marital status	Single	3.2604	3.5417
	Married with children	3.3759	3.6778
		3.5000	3.6930
	Divorced with children	3.6210	3.6452
	Widowed or separated	.132	.059
Employment status	Self employed	3.7581	3.6559
	Employed	3.4671	3.6228
	Unemployed	3.2506	3.6512
	Other	3.3026	3.4035
	P-value	.002	.591
Educational Qualifications	None	3.3482	3.6905
	GCSE	3.2250	3.6533
	A-Level	3.3639	3.7415
	Diploma and above	3.4850	3.5167
	P-value	.156	.540
Annual Income	Less than 5,000 pounds	3.1577	3.4974
		3.3457	3.6214
	5000-9,999	3.4286	3.7415
	10,000-14,999	3.6306	3.6722
	15,000-29,999	.001	.038
	P-value		

Table (8.13.1) presents the Mann-Whitney and Kruskal-Wallis analysis carried out on the data. As I have already described in previous sections, both of these are non-parametric tests and are the t-test equivalent of the mean variance of the data.

According to the previously-presented tables, where the seven variables affecting how less affluent UK Muslims perceive the *Shari'a*-compliant financial products on offer is presented, it is obvious that participants responded differently to each particular question where the level of agreement or disagreement was tied to the posed question. However, appreciating the significance of these differences and their possible implications warrants the use of the most appropriate statistical analysis. Hence, Mann-Whitney and Kruskal-Wallis were chosen for this purpose as I have already mentioned. The facts gained through the application of the said statistical analysis require further interpretation which will be dealt with in the coming section.

8.13.2 Interpreting the presented information:

1. Inconvenience (Scepticism factors):

As far as the scepticism factors are concerned, it is obvious that the respondents' gender did not significantly affect the response. This is evidenced by the P-value (0.115) of the gender variable which suggests that the differences between respondents were not at all significant. However, the respondents' responses differed according to their ages, as the above table represented by the P-values shows (0.00). For instance, the group between the ages of 16 and 25 seems to be neutral as their mean indicates (3.06) while those over 50 years agreed with almost all the scepticism statements (3.7). Significant differences also existed in other variables including age, ethnicity, length of stay in UK,

employment status and annual income, indicated by the P-value of the respective variables.

2. Preference for *Shari'a*-compliant finance factors:

Interestingly, the differences of the respondents' responses were not significant in most cases as far as the preference factors were concerned. The sole variable where the difference was significant was in the case of annual income as the P-value suggests (0.03). This may explain the fact that the agreement among respondents was strong in preferring *Shari'a*-compliant products over conventional finance

Conversely, it may suggest a high degree of disappointment among less affluent UK Muslims as far as the way *Shari'a*-compliant financial products are offered in the UK is concerned. Obviously the high preference expressed by less affluent UK Muslims for *Shari'a*-compliant finance was badly tainted by the unattractive and unpopular features of the *Shari'a*-compliant financial products currently on offer in the UK and it seems to be the major source of the scepticism discussed above.

In my opinion, the onus is upon the institution offering such products to revise all the phases of their product offering, including development, promotion and market segmentation strategy, to remedy the situation.

8.14 SUMMARY

This chapter is the main analysis chapter of the quantitative data represented by the survey questionnaire where both descriptive and inferential statistics were employed in understanding the information containing the survey questionnaire. Frequencies and percentages were among the descriptive statistics used while Mann-Whitney U-test, Kruskal-Wallis factor analysis and Chi-square tests were the selected inferential statistical analysis deemed to be particularly relevant in this study.

The chapter started with the objectives of the survey questionnaire, followed by a brief explanation of the analysis to be carried out to find reasonable answers to the main research questions and their sub-questions.

Firstly, the respondents' access to conventional financial products was studied to assess the extent to which the less affluent UK Muslim community accesses products such as bank accounts and mortgages. It was obvious from the analysis carried out that although a significant proportion of the less affluent UK Muslim community had some sort of basic bank accounts, the majority did not access the major conventional financial products such as mortgages or personal and business loans. This answered the first main research question which explored how well the UK conventional financial system meets the financial services needs of this community. The outcome of the analysis of this section was that less affluent UK Muslims are not well served by the conventional UK financial system. The study also revealed some important information about the extent to which less affluent UK Muslims rely on informal financial services such as *hawala* (money transfer) and informal credit unions. An attempt was made to analyze the reasons behind the preference for informal financial service over formal conventional financial services. Similarly the differences among respondents' answers in this respect were also

scrutinized to see if there were significant differences due to their characteristics. However, as far as respondents' perception and attitudes towards the *Shari'a*-compliant financial products currently on offer is concerned, a major portion of this study was devoted to these and all relevant descriptive and inferential statistical analysis was performed to answer the second research question which was specifically aimed at shedding light on this issue. Factor analysis was applied to the seven statements in this part of the questionnaire and consequently reduced to only two factors. Further analysis was then carried out to make more sense of the available facts. Detailed explanation of the two factors and their implied message was also covered at some length in the appropriate section. Finally, Mann-Whitney and Kruskal-Wallis analysis were performed on the respondents' answers to find out if there were significant differences caused by their category and this was subsequently interpreted.

Finally, I can conclude that this chapter has met its objectives as it has succeeded in finding relevant and suitable answers to all the research questions.

Chapter 9

INTERVIEW ANALYSIS

9.0 INTRODUCTION

This chapter is an analysis of the semi-structured interviews that have been conducted with the bankers working on *Shari'a*-compliant finance in the UK and the scholars of such products. Being qualitative in nature, it involves analyzing and interpreting the answers given by the interviewees to extract meaning from them. According to Robson (2007.p.456) "The central requirement in qualitative analysis is clear thinking on the part of the analyst. The analysis is as much a test of the enquirer as it is a test of the data"

The objective is to find out if the responses of the interviewees can contribute to our basic objective of finding relevant, reliable and satisfactory answers to the main research questions and their sub-questions which have been presented in previous chapters. In particular, this chapter, like the previous one is more concerned with the second main research question and its sub-questions which are presented in the previous chapter.

As part of the empirical study of the thesis, the semi-structured interviews were carried out on two groups, namely the bankers working for the institutions providing *Shari'a*-compliant finance in the UK and the UK-based scholars of Islamic banking and finance.

The above mentioned two groups were objectively selected based on their expertise and exposure to the *Shari'a* compliant financial products currently on offer in the UK. The first group were selected as they have first hand-experience of the mechanics of these products. Similarly, the UK based scholars of Islamic banking and finance were selected as they would have an academic interest in the subject and would greatly contribute to the interview objectives. However, I would like to make clear that the latter group are not

Shar'a scholars who are usually *Fiqh*(Islamic jurisprudence) specialists as some might think. They have been selected for their academic expertise in Islamic banking and finance, but they are mainly economists by training with reasonable exposure and expertise on Islamic banking and finance in the UK due to their academic interest in the subject as most of them are teaching, researching or working as consultants in the field of Islamic banking and finance in the UK.

In the next few paragraphs, I will be presenting the answers given by these two above-mentioned sets of interviewees followed by my understanding and interpretation of them.

It is my expectation that the responses given by the interviewees will contribute to our understanding of the salient features of the *Shari'a*-compliant financial products currently on offer in the UK and the extent to which such products meet the financial services needs of less affluent UK Muslims. Likewise, the impact that the availability of Islamic banking products had on those at the bottom of the financial services ladder will be examined in the light of the answers given by the respondents.

The fact that the first group of respondents are themselves the providers of *Shari'a*-compliant finance to the UK market is somehow reassuring as I have the privilege of getting the information from the original sources since these people are the gate keepers of *Shari'a*-compliant finance in the UK and have first hand experience of how the less affluent UK Muslim community is responding to or accessing these products.

Similarly, the UK-based scholars of Islamic Banking and Finance are quite familiar with the products offered by the providers of *Shari'a*-compliant financial products in the UK as they would usually have a keen interest in the subject as part of their academic and professional involvement in the industry in different capacities.

The questions presented to both groups of interviewees are available in the appendix attached at the end of this thesis. However, before I proceed, I will present below the details of the interviewees and their respective institutions.

Table 9.1a Details of bankers interviewed and their respective institutions

Institution	Job title of the interviewee
The Islamic Bank of Britain	Product Development Officer
Lloyds TSB-IFS	Product Development Officer
Alburaq	Public Relations Officer

Table 9.1b Details of the scholars interviewed and their respective institutions

Institution	Job title of the interviewee
Markfield Institute of Higher Education(MIHE)	Associate Professor
The Islamic Foundation	Research fellow
Dar Al-Istismar	Chief executive
The Muslim Council of Britain(MCB)	Chairman, Business and Economics Committee

I will start with an analysis of the answers given by the bankers working on *Shari'a*-compliant finance, followed by the interpretation of the responses given by the scholars of such products in the UK.

Initially, I approached all the banks offering *Shari'a*-compliant financial products in the UK in order to conduct an interview, but only three of these institutions responded positively to our request, namely, the Islamic Bank of Britain, Lloyds TSB-Islamic Financial Services (IFS) and Alburaq Home Finance. As far as the scholars are concerned, the number of people who could be described as scholars in Islamic banking and finance was very limited and after an extensive research, I was fortunate to find the above mentioned four individuals who met my selection criteria and were indeed well exposed to the UK Islamic finance industry.

The analysis of the responses given by the above-mentioned interviewees is introduced in the coming sections, preceded by the method used to present the same.

As I explained in the research methodology chapter, the responses of the interviewees were first individually recorded, but later grouped according to the particular theme they represent to simplify the analysis as some of the questions explore the same concept. For instance, the first two questions were clubbed together as they were asking the respondents about their respective *Shari'a*-compliant products and the length of their presence in the market.

I am of the opinion that carrying out the analysis in this manner improves the presentation and enables the reader to digest the information faster as it is more concise and informative.

9.2 ANALYSIS OF THE *SHARI'A*-COMPLIANT FINANCIAL PRODUCTS IN THE UK AND THE LENGTH OF THEIR PRESENCE

The first two questions of the semi-structured interview questions were related and asked the respondents about the kind of *Shari'a*-compliant financial products that their respective employers currently offer to UK Muslims. The purpose of these two questions was to learn about the distinguishing features of the products offered by each bank as well as how long they have been available in the UK, as they were introduced at different times by different providers.

I am of the opinion that obtaining this information directly from the institutions themselves is both crucial and fair as it gives the respondents the opportunity to explain the distinct characteristics of their particular products compared to those of their competitors and enhances the authenticity of the information received in this respect. As stated earlier, the answers of the respondents to the above-mentioned questions were first coded as the coming table shows and an in-depth analysis of the same was subsequently presented.

Table 9.2.1 Responses given by the bankers to questions (1 & 2)

Questions(1 & 2)	<i>What Shari'a-compliant financial products do you offer and for how long?</i>
Interviewee	Response
1	We provide various types of <i>Shari'a</i> -compliant Personal, Business and Home financing schemes, charity accounts for mosques and Madrasses and cash card for the less well off. This has been operational since Sept-2004.
2	We offer Islamic accounts, Islamic student accounts, children's mutual funds and <i>Shari'a</i> Baby Bonds, Islamic mortgages etc. We have been offering the above since Jan 2005.
3	Alburaq-savings plan and alburaq <i>Shari'a</i> -compliant home finance. It has been operational since early 2005.
Theme	Most <i>Shari'a</i> -compliant financial products have been operational for more than four years and there are no major differences between them. However, IBB products seem to be the most comprehensive of all.

As the above answers show, the providers of *Shari'a*-compliant financial products provide various types of accounts like their conventional counterparts. However, detailed explanation of the *Shari'a*-compliant financial products currently on offer in the UK as provided by the interviewees is presented in the next section under their respective headings.

9.2.2 Analysis of the Respondents' Answers Regarding Their *Shari'a*-Compliant Personal Banking Facilities.

The *Shari'a*-compliant personal banking products provided to the UK Muslim community as per the answers provided by the Islamic bankers in the UK include: current accounts, savings accounts and *Shari'a*-compliant time deposit accounts such as the *Wakala* Treasury account, offered by the Islamic Bank of Britain.

The distinguishing features of these products, as claimed by their providers, are their *Shari'a* compliance in the sense that they do not receive or pay interest. The providers of such products claim that their products are more transparent, ethical and offer more choices than their conventional counterparts. According to some of the advertising material on the website of the Islamic Bank of Britain, these products do not appeal to Muslims alone, but also to the wider public who would like to be ethical in their financial and business matters as the following extract from www.islamicbank suggests:

We believe firmly that our products and services will appeal to anyone - Muslim or non-Muslim - who is interested in holding an account with a bank with our exacting ethical standards. Unlike many high street banks, we refuse to invest your money in financing armaments, alcohol, tobacco or drugs companies.

The current account is the most basic and most popular personal banking product offered by any bank and, like all other banks, it is offered by all the banks providing *Shari'a*-compliant financial products in the UK. However, it is important to note that Islamic banks do not pay interest on their current accounts as the account is opened on the basis of "*qard Hassan*(benevolent loan)" The idea is that the depositor allows the bank to utilize his/her money at no interest, provided that they do not invest in activities prohibited by *Shari'a* and the bank guarantees full payment upon request. Another key concept in this transaction is *wadi'a* (safekeeping) as the bank is holding the money on *wadi'a* (trust) and should return it as soon as the owner so demands. Detailed description of the *Shari'a*-compliant current account was given in Chapter Four as the background chapter on the UK experience of *Shari'a*-compliant finance therefore it is unnecessary to repeat it here.

Similarly, the *Shari'a*-compliant savings account does not pay interest. Instead, the bank invests the client's money in an eligible trading activity and passes some of the profits generated to the client as per their agreement. Providers of *Shari'a*-compliant finance in the UK, represented by my interviewees, argue that the customer does not lose out as they receive some of the profits earned by investing their money via the bank while not compromising their faith as the case would have been had they kept their savings in a conventional bank.

According to the responses given by some of the respondents, the savings account offered by some of the banks offering *Shari'a*-compliant financial products in the UK operate on the principle of *mudaraba*(trust financing). Under this arrangement, the bank acts as the *mudarib* (agent) and the depositor acts as the *rabbul-mal* (capital provider). The profit or loss resulting from the trading activities carried out by the bank is shared on a profit/loss ratio agreement stipulated in the contract at the initial agreement stage.

Another *Shari'a*-compliant personal banking product offered by some *Shari'a*-compliant UK-based banks is the *murabaha*(cost-plus financing)-based time deposit account known as a Treasury deposit account. The Islamic Bank of Britain's treasury deposit is known as a *Wakala* treasury account where the client is paid some of the profits earned on the *murabaha*(cost-plus financing) commodity trading carried out by the bank.

According to the banks offering these products, the client is fairly compensated while acting within the *Shari'a* framework. Again, the mechanics of the Treasury deposit account were well covered in Chapter Four, but I will summarize its main features here to remind ourselves of some its salient features as described by the interviewees.

1. *Halal* profits are sometimes higher than those of their conventional counterpart's time deposit, give more flexibility and are less risky

2. Profits are paid gross and on maturity unlike conventional time deposit accounts.
3. If the bank feels they cannot achieve the profit promised in the *murabaha*(cost-plus financing) contract, the capital, plus the accrued income to date is paid back to the customer even if it is before the maturity date. This is not the case with conventional banks as no interest is due until the maturity date
4. Initial investment could be in a number of currencies such as Pounds Sterling, US Dollars and Euros which offers more flexibility and the minimum amount is equivalent to £50,000.
5. It is available to a range of customers including business and personal customers and charities such as mosques. (www.islamicbank.com, accessed March 2008)

9.2.3 Evaluation of the Role that *Shari'a*-Compliant Personal Banking Facilities Play in Tackling Financial Exclusion Among UK Muslims.

Apparently, all the respondents have gone into great detail with enthusiasm about the unique features of their respective products with the objective of convincing us that theirs stands out from the crowd and should appeal to their potential customers. However, my previous analysis in the preceding chapters regarding the extent to which the less affluent Muslims access these products showed a disappointing result as I have explained there. Hence, despite being in operation for more than four years as the interviewees confirmed, these financial products are still not as popular as they should have been given their attractive features in the eyes of their providers.

Although pinpointing a particular reason behind the sluggish demand for these products is a daunting task, one could possibly borrow the findings of the previous chapters to understand the underlying reasons.

As I have noted there, concern about the authenticity and the affordability of these products were some of the major factors affecting the low demand for *Shari'a*-compliant financial products in general and personal banking products are not an exception according to my previous findings. For instance, in Chapter Eight, I discussed that only 13% of my sample respondents had a *Shari'a-compliant account which confirms* our initial assertion that these products are not enhancing the financial inclusion of less affluent UK Muslims. The main reason for not accessing *Shari'a*-compliant financial products as cited by the respondents was that they believed that these products were not significantly different from their conventional counterparts. Perhaps, it is worth reminding ourselves that the main reason why less affluent UK Muslims avoid dealing with conventional banks is the fear of interest. Sixty-eight percent of them said they do not access conventional banking products such as Time deposits and personal loans due to the strict prohibition of interest in Islam.

Since most of the *Shari'a*-compliant personal banking products have similar equivalent conventional counterparts with minor differences, this may be creating further suspicion in their mind that these products are just the conventional products in Islamic costume as in fact a number of the respondents clearly stated in their explanation of why they choose not to access these products.

Paradoxically, I have also mentioned in Chapter Eight that 77% of the respondents believed that the introduction of *Shari'a*-compliant financial products in the UK would greatly enhance the financial inclusion of less affluent UK Muslims which of course

includes the introduction of *Shari'a*-compliant personal banking facilities. This was surprisingly contradicted by the fact that only 13% of those who had heard about the availability of *Shari'a*-compliant financial products had opened *Shari'a*-compliant accounts. The reasons for this mismatch were discussed at length in Chapter Eight and although, there is no need to repeat the analysis here, it is worth mentioning that all the attractive features of *Shari'a*-compliant financial products, including personal banking products and the inherent enthusiasm for such products among the UK Muslim community, was badly tainted by the scepticism factors as discussed in Chapter Eight in great depth.

One particular issue that is worth mentioning here is the fact that the Treasury deposit account is *murabaha*(cost-plus financing)-based and the controversy surrounding *murabaha*(cost-plus financing) as I have explained in earlier sections probably makes the acceptability and the accessibility of these products much harder as our findings show.

For instance, in Chapter Four I reported the recent legal opinion issued by one of the most influential *Shari'a* scholars, Sheikh Taqi Usmani in which he concluded that the current application of *murabaha*(cost-plus financing) by most Islamic banks is doing more harm than good as it may hinder the development of the industry instead of advancing it. Thus, one may argue that what we are currently witnessing in the UK is a manifestation of the beginning of the concerns expressed by Sheikh Taqi Usmani and other commentators such as Nejatullah Siddiqui who called for the removal of debt-based financial instruments including *murabaha*(cost-plus financing) from the list of permissible financial products.

Another explanation could be that lack of awareness and the limited knowledge of this community about financial products in general and Islamic ones in particular is greatly

hindering demand for such products. For instance, I mentioned in Chapter Eight that nearly half (44%) of the people who took part in the research survey were not aware that some *Shari'a* compliant banking products existed in the UK, which is alarming given the length of the presence of these products according to the interviewees.

Similarly, poor financial literacy augmented by widespread suspicion and rumour about the authenticity of such products is having a major impact on the level of access to the *Shari'a*-compliant personal banking products currently on offer in the UK.

The responses given by the scholars in this respect support the above argument and in my opinion were more objective than the explanations given by the bankers who seemed to be impressed by the great features of the products offered by their respective institutions and were somewhat angry about the low demand for their products blaming the huge discrepancy between the forecasted and the actual demand on the ignorance of the consumers about their wonderful products!

Conversely, the responses given by the scholars were more balanced and comprehensive, covering the issues I have discussed above such as the scepticism regarding the authenticity of the available *Shari'a*-compliant financial products, poor financial literacy and inappropriate marketing campaigns as the major reasons behind the low demand for Islamic financial products in the UK.

9.2.4 Analysis of Interviewees' Responses Regarding the *Shari'a*-Compliant Business Banking Facilities on Offer in the UK

The business banking facilities offered by UK-based banks providing Islamic banking services include business current accounts, *mudaraba*(trust financing)-based business

savings accounts, *murabaha*(cost-plus financing)-based business finance facilities, *mudaraba*(trust financing)-based term deposit business accounts, treasury deposit business accounts and community accounts for charities and religious organizations.

As I have explained earlier, none of the business banking facilities offered by the providers of *Shari'a*-compliant finance differs greatly from their conventional counterparts, apart from the fact that they do not pay or receive interest. Islamic financing modes of finance such as *Murabaha*(cost-plus financing) and *Mudaraba*(trust financing) are used to compensate the depositor for the time they keep their money with the bank, in lieu of the interest paid by conventional banks.

The Islamic Bank of Britain is the only one currently providing *Shari'a*-compliant business banking. According to the response given by the representing respondent and the information posted on its website, this account has many good features, such as online banking which enables the user to have access to his/her business transactions 24/7. All the common online facilities such as payment of bills, transfer of funds and password changes are available on top of its *Shari'a* compatibility.

The above answers portray some of the intrinsic characteristics of Islamic banking products as claimed by the providers of these financial products which sound more ethical than their conventional counterparts and should, theoretically, appeal to all Muslims as they are *Shari'a*-compliant, as well as to non-Muslim ethical investors as some of the earlier adverts suggested.

9.2.5 Evaluation of the role that *Shari'a*-Compliant Business Banking Facilities Play in Enhancing the Financial Inclusion of UK Muslims.

Unlike the bankers who participated in the interview, the majority of the scholars were of the opinion that the Islamic business financing facilities currently on offer are not suitable to the needs of their target customers which could explain the low demand for these products. M

analysis of the demand for the available *Shari'a*-compliant business banking facilities also supports the view of the scholars and clearly shows that these products are not attracting Muslim entrepreneurs in general and the less affluent in particular.

It seems that the positive features of the *Shari'a*-compliant banking products mentioned above have not yet been properly fed into the psyche of their potential customers. For instance, I explained in Chapter Eight that only 3% of the respondents who were running their own businesses ever sought finance from the institutions providing *Shari'a*-compliant financial products which is a cause for concern given the high natural preference expressed for *Shari'a*-compliant finance by the UK Muslims, where 82% confirmed that they would prefer *Shari'a*-compliant financial products to conventional finance.

As the underlying reasons for the low demand were previously discussed in detail, it is not necessary to repeat them here. However, it is obvious from the above discussion that the close resemblance of the *murabaha*(cost-plus financing)-based *Shari'a*-compliant investment accounts to conventional time deposit accounts is one of the major factors contributing to the low demand for these products. This reinforces our previous findings on the factors contributing to the low demand for all the *Shari'a*-compliant financial

products including Islamic business banking products, as profound scepticism concerning the authenticity of these products was found to be a determining factor of the low demand for such products.

Similarly, the large minimum balance required to open some of these investment accounts, such as the treasury deposit account which requires a minimum of £50,000 obviously discriminates against anyone who does not possess that amount of wealth. As I have discussed earlier, the majority of UK Muslims would fall into this category as they are deemed poor by UK standards. Again, this supports the earlier revelations that the *Shari'a*-compliant financial products currently on offer are not suitable to the financial services needs of the less affluent UK Muslims, as accessing these products is sometimes beyond the means of this community as the above fact now indicates.

Another factor is the poor financial literacy of the less affluent UK Muslim community as I have mentioned earlier. As before, it is good to remind ourselves that the less affluent UK Muslims were hardly accessing conventional business financing facilities either due to both fear of interest and poor financial literacy and usually resort to informal financing such as Rotating Saving and Credit Association (ROSCA's) schemes in raising finance for their business ventures. My earlier findings also showed that the reasons why the less affluent UK Muslims prefer informal finance is to do with their ease of access, cost effectiveness and speed as there are formal procedures to be followed. Thus, competing with this centuries-old, cost effective and easily accessible financing will indeed prove difficult for new entrants to this market such as the providers of *Shari'a*-compliant financial products. Therefore, these institutions need to do more to compete with this established and popular way of financing among the less affluent UK Muslims. Indeed, it would be a brilliant idea if the two could work together as they could complement each

other in a win-win situation where they could generate substantial business and at the same lift the less well-off from financial exclusion.

9.2.6 Analysis of the Interviewees' Responses Regarding *Shari'a*-Compliant Home Financing Facilities in the UK.

Shari'a-compliant home financing is the most important and most costly Islamic financial product offered in the UK. According to the responses received from the respondents, the Islamic Bank of Britain, Lloyds TSB and others provide *Shari'a*-compliant home financing facilities through Al-Buraq home financing scheme which is based on the principle of diminishing *musharaka*(partnership).

Diminishing *musharaka*(decreasing partnership) is one of the most popular means of home financing in the UK and although I have already covered it's mechanics in detail in previous sections, I will now briefly run through its main characteristics.

Diminishing *musharaka*(partnership) could be translated as a 'declining balance co-ownership' which simply means that the financier, usually the bank, and the customer co-purchase the selected property, and the ownership is determined by the share invested by each party. Normally, the customer's initial share is very small compared to the amount injected by the financier.

The two parties then enter into a separate agreement where the customer pays rent to the bank until s/he completes the payment of the initial investment advanced by the bank and the agreement also allows the customer to purchase the bank's share in stages. Once the customer completes the payment of the remaining balance due to the bank, the

ownership will be fully transferred to the customer who will assume all the risks and rewards after that point.

Like many other *Shari'a*-compliant products, diminishing *musharaka*(partnership) is not free from controversy and one of the problems that surround it is that it combines two contracts in one which is not allowed by *Shari'a* However, according to Sheikh Taqi Usmani, the problem is solved by separating the two contracts where the sale contract is not pre-conditioned to the subsequent leasing arrangement.

Other less popular *Shari'a*-compliant home financing plans currently operating in the UK include *murabaha* (cost-plus financing) and *ijara* (leasing with option to purchase). Again, the mechanics of these products were well covered in Chapter Four and will not be repeated here, but I will briefly look at the impact they are having on the financial inclusion of UK Muslims in general and the less affluent in particular.

Shari'a-compliant home financing has been available since the late 1990s, but its success has been very limited for many reasons, including the unfair pricing caused by the unfavourable regulatory and market conditions. However, the British Government has recently shown a keen interest in creating a 'level playing field' for Islamic mortgages. Abolition of the double stamp duty, revising the taxing of Islamic mortgages and the fair treatment of Islamic financial products advocated by the Financial Services Authority (FSA) are some of the positive measures adopted by the government to help the providers of these products to package their products more competitively.

All the interviewees expressed their appreciation of the stance taken by the British Government towards introducing Islamic financial products in the UK market on a large scale. There is no doubt that the interest shown by the UK authorities and the positive steps taken to encourage the availability of *Shari'a*-compliant finance in the UK is

commendable and deserves its due recognition and respect. However, one cannot ignore the reality on the ground as far as the contribution these products are making to the financial inclusion of less affluent UK Muslims is concerned and is therefore discussed in the next section.

9.2.7 Evaluation of the Extent to which *Shari'a*-Compliant Home Financing Facilities in the UK Are Enhancing the Home Ownership of UK Muslims.

As I noted in the previous chapter, the *Shari'a*-compliant home-financing schemes currently available in the UK are scarcely influencing the home-purchasing behaviour of the UK Muslims in general and the less affluent in particular. My findings presented in the previous chapter also confirmed that the existence of many inter-related inconvenience factors is causing this sluggishness. Serious concern about the authenticity of the existing *Shari'a*-compliant financial products, excessive pricing and a perceived materialistic approach were some of the main reasons found to be holding back the demand for *Shari'a*-compliant financial products. However, most of the bankers interviewed were of the view that the above-mentioned concerns were baseless and were convinced that the good features of their products would soon be recognised and appreciated by their target customers. However, most of the scholars had a different view and were somehow convinced that the providers of *Shari'a*-compliant home financing need to do more to convince people and should address the above mentioned issues. For instance, one of the scholars said that he was not convinced himself and that he has therefore purchased his home through a conventional bank. Consequently, it seems that until those factors are realistically addressed, this situation will remain unchanged.

9.3 STUDIES CARRIED OUT BY THE INSTITUTIONS PROVIDING *SHARI'A*-COMPLIANT FINANCE IN THE UK PRIOR TO THE INTRODUCTION OF SUCH PRODUCTS.

I will examine the studies carried out by the institutions offering *Shari'a*-compliant financial products before they started their operations in the UK. As before, the interviewees' responses will first be coded in the table below followed by further analysis of the same.

Table 9.3.1 Responses of the interviewees to questions (3 & 4)

Questions(3&4)	<i>Did you carry out market research prior to introducing these products in the UK and how does this compare to the actual results afterwards?</i>
Interviewees	Responses
1	Yes, we did, but the gap between our projections and actual results is very big.
2	Yes, we did. We estimated 75% of UK Muslims to be our customers, but the reality is very different.
3	Yes, we did and the expectations were high which had to be re-adjusted according to the reality on the ground
Theme	All of the institutions carried out market research and there were huge variations between their projections and the actual results.

As the above table shows, the questions that were put to the representatives of the institutions providing *Shari'a*-compliant finance in the UK in this respect were about the research they carried out prior to introducing these products in the UK and the disparity between their projections and the actual results.

According to the responses given by these interviewees, all of the financial institutions offering *Shari'a*-compliant finance in the UK carried out a comprehensive feasibility study. They also had a detailed business plan incorporating their financial projections

based on the estimated demand for their products prior to introducing these products in the UK. In fact, some of them informed me that they carried out the research twice to ensure the plan was as robust and realistic as possible. However, it seems from the interviews conducted with these representatives that most of these plans were over-optimistic and unrealistic, despite the significant resources dedicated to getting it right and therefore the discrepancy between the predicted business and the actual business is enormous.

They suggested that their respective plans were based on the estimated size of the UK Muslim community. This is thought to be around 1.8m, according to various surveys, which is equivalent to 3% of the UK population. In addition to these Muslim residents, there are a large number of regular Muslim visitors to the UK, estimated to be around half a million a year. Likewise, it is also estimated that there are about 12 million Muslims in Europe (www.fsa.gov.uk, accessed December 2008). It is highly likely that these large numbers significantly influenced the projections made by these institutions at the business planning stage.

According to some of the interviewees, it was a false assumption on their part that all or most UK Muslims would be interested in *Shari'a*-compliant financial products and they ignored the fact there are many Muslims who are indifferent as far as finance is concerned. Consequently, the interviewees admitted that there has been a huge discrepancy between what the financial forecast told them and the actual take-up of their products and stated that those plans were subsequently revised to reflect the realities on the ground.

This frank admission supports the opinion of one of the *Shari'a*-compliant finance scholars I interviewed who stated that only 25% of Muslims are interested in Islamic finance worldwide and the UK is no exception.

The biggest challenge facing these institutions is the limited up-take of their products which largely contradicts their projections. However, most of the interviewees remained very positive about the future and sounded confident that things would improve as people started to understand the basic principles of Islamic banking products, but admitted that they should invest in education to improve the situation.

Most of the scholars also agreed that there was a good future for Islamic banking products, but expressed concern about the way *Shari'a*-compliant finance was initially promoted and put the blame on the institutions offering these products as they did not invest in education properly and assumed too much about the banking behaviour of UK Muslims in general and the less affluent in particular. One of the scholars even went further to suggest that he was very upset by the fact that these institutions underestimate the potential of the less affluent UK Muslims and spend most of their effort chasing wealthy external customers which is reflected in their marketing strategies.

In addition to the above-mentioned concerns expressed by the UK-based *Shari'a* compliant finance scholars, there are other reasons believed to be a major cause for the significant differences between the initial business projections and the actual demand for such products. As I pointed out earlier, some of the mostly commonly-cited reasons are the scepticism expressed by the target customers (the UK Muslim community) about the authenticity of the *Shari'a*-compliant financial products currently on offer in the UK. The sources of the said scepticism and its variants were discussed at length in the previous

chapter, where the quantitative data of the research was presented and were briefly discussed in previous sections.

Lack of education about financial products in general and *Shari'a*-compliant ones in particular, very close resemblance to conventional products and a perceived or real materialistic approach of the institutions providing *Shari'a*-compliant banking products were among the issues cited in the said analysis.

9.4 THE CUSTOMERS ACCESSING THE *SHARI'A*-COMPLIANT FINANCIAL PRODUCTS CURRENTLY AVAILABLE IN THE UK

In the following table, the answers given by the respondents to the questions presented will be summarised. As stated earlier, these questions are grouped together because they tackle similar issues.

Table 9.4.1 Responses given by the Islamic bankers to questions (5, 6, 9 & 10)

Questions(5,6,9 &10)	<i>How many of your current customers have not been previously banking with conventional banks and how many were banking, but switched to yourselves?</i>
Interviewees	Responses
1	We tried to obtain this data, but it was very difficult as people may not give honest answers at times.
2	We obtained some data on this, but the number of the unbanked was small. Some people did switch, but they remained a tiny minority.
3	Most of our customers are first-time buyers, but very few have switched from conventional mortgages.
Theme	Institutions tried to quantify the number of previously unbanked accessing their products with difficulty and confirmed they were a very small number.

As I explained previously, the providers of *Shari'a*-compliant finance in the UK offer Islamic financial products ranging from current accounts to *Shari'a*-compliant home-finance, in response to the varying and complex financial services needs of their prospective and present customers. For instance, the Islamic Bank of Britain provides a whole range of financial services like those described above, while Al-Buraq specializes in *Shari'a*-compliant home-finance alone. Usually, the level and sophistication of financial services demanded by an individual are determined by many factors including their affluence, financial literacy and risk aptitude and the consumers of the *Shari'a*-compliant financial services are no exception.

According to the respondents' answers, the types of people currently accessing the financial products offered by the providers of such products can be summarized as follows:

1. People who were previously banking with other banks and are now opening second accounts with the providers of *Shari'a*-compliant finance.
2. People who were not previously banking, although according to the information supplied by the bankers interviewed this is a tiny minority. They have also admitted that obtaining more details about their numbers and banking history is proving to be extremely difficult.

I am particularly interested in the extent to which less affluent UK Muslims access these products, however the interviewees could not give us a definite answer as they do not specifically trace the people who were not banking before, but were of the opinion that very few would fall into that category.

As far as home-financing is concerned, the majority are either first-time buyers or people switching their conventional mortgages to a *Shari'a*-compliant one, although they still remain a small minority. This is good news for the providers of Islamic finance in the UK as having a lot of first time buyers would indicate that these individuals were not taking out this product due to dislike of interest. However, as various reports suggest and in the words of Dr Humayon Dar (2004) the up-take of *Shari'a*-compliant financial products is proving to be like 'chasing a mirage'.

The main finding of his report was that there was no real demand for *Shari'a*-compliant financial products, including home financing schemes, and the providers of such products need to devise the right marketing strategies in order to improve the situation.

Most of the interviewees concurred with the above findings with minor variations. The overall consensus that emerged from this analysis was that something needs to be done and very soon if the persistent low demand for *Shari'a*-compliant services in the UK is to be reversed.

9.5 THE ROLE *SHARI'A*-COMPLIANT FINANCIAL INSTITUTIONS SHOULD PLAY IN TACKLING FINANCIAL EXCLUSION.

As before, the following table summarises the answers given by the interviewees to questions 7 & 8 which explore the same theme.

Table 9.5.1 Responses given by the bankers to questions (7&8)

Questions(7&8)	<i>How do you see your role in tackling financial exclusion of poor UK Muslims and what steps have you taken towards this direction?</i>
Interviewee	Response
1	Our role could be big and we have introduced certain products such as special accounts for mosques, <i>madrasses</i> and other charities, cash cards, unsecured business finance facilities and capital for sole-traders. Some of these products are attracting a reasonable number of customers. For instance, the take-up of the cash card is (30-40%).
2	We feel our role can and should be big, but we face stiff competition from the conventional market and we cannot run our operations like a charity as some people expect. The industry needs more time to tackle this issue and we are slowly evolving.
3	We definitely feel that we can and should enhance the financial inclusion and the economic wellbeing of our customers. For instance, some people who were renting before now own their home through our <i>Shari'a</i> -compliant products.
Theme	Institutions recognise their role in enhancing the financial inclusiveness of their target customers, but no concrete plans were in place in most cases.

Both groups of respondents were asked about the role that Islamic finance should play in tackling financial exclusion among poor UK Muslims. However, the two groups differed in many aspects and I would not therefore expect them to give us identical responses in this respect.

The objective of putting the above question to the bankers working for *Shari'a*-compliant financial institutions was to obtain their opinion on what their respective banks are doing to tackle the issue of faith-related financial exclusion. That is, whether their respective banks which are providing *Shari'a*-compliant financial products are enhancing the financial inclusion of UK Muslims in general and the less affluent in particular. It may be true that there are many Muslims who were not banking before *Shari'a*-compliant banking was introduced simply because they did not want to deal with interest as the

press release statement of Michael Hanlon, Managing Director of the Islamic Bank of Britain has suggested:

As Islam forbids the receipt or payment of interest (the basis of most conventional Western banking), many Muslims have chosen not to use their products and services. The result is that many have no banking history, creating another potential barrier to accessing banking services in the future (www.islamicbank.com, accessed March 2008).

The interviewees gave different answers, for instance some of the banks, like the Islamic Bank of Britain, have basic cash card accounts and accounts for charities, such as mosques, which is a step in the right direction. However, most of the interviewees said they were not aware of any particular policy aimed at tackling financial exclusion other than the general provision of *Shari'a*-compliant financial products which in their opinion should have contributed to the financial inclusiveness of UK Muslims in general and the less affluent ones in particular. However, this contradicts our findings as previously explained in other parts.

The scholars, on the other hand, expressed different views as to the role that these institutions should have played in tackling financial exclusion and what measures they should have adopted in this respect. Some scholars were of the opinion that the low demand for *Shari'a*-compliant financial products in the UK is entirely due to the failures of these institutions to offer genuine, relevant and competitive financial products to attract those *Shari'a*-favouring, but extremely cautious and selective, UK Muslims. Others pointed the finger of blame at UK Muslims who in their opinion expect something for nothing and are confusing banks with charitable organisations. However, the general consensus among both the scholars and the bankers was that lack of education is the main reason behind much of the stagnation of the demand for Islamic financial products

in the UK. Similarly, the limited range of *Shari'a*-compliant financial products coupled with widespread scepticism about the authenticity of these products has no doubt also contributed to the status quo.

9.6 PROSPECTS AND CHALLENGES FOR ISLAMIC FINANCE IN THE UK

The table below summarises the answers given to question 15 by the bankers working on *Shari'a*-compliant financial products in the UK. The same question was also put to the UK-based *Shari'a* compliant finance scholars, but their responses are presented in the subsequent table.

Table 9.6.1 Responses Given by the Bankers to Question 15.

Question 15	<i>What do you think is the future of Islamic banking in the UK and what are the challenges it should overcome to succeed?</i>
Interviewee	Response
1	I think the future is great. Competitive pricing, more product range and education about these products need urgent attention.
2	According to our estimates the future is bright, but real demand needs to be created through education and more tailor-made marketing campaigns.
3	The fact that the UK Muslim population is steadily increasing with more affluence indicates that the future for Islamic banking is bright.
Theme	Providers of Islamic finance were optimistic about the future of their products, but admitted education is a key to their success.

Table 9.6.2 Responses given by the Scholars to Question 15

Question 15	<i>What do think is the future of Islamic banking in the UK and what are the challenges it should overcome to succeed?</i>
Interviewee	Responses
1	The future is bright as the political will is there, but these institutions need to shift their focus from catering for the rich gulf clients to the needs of the local UK Muslims.
2	The future is promising, but overcoming the rife scepticism, investing in education and product standardisation are some of the key challenges.
3	There is a great future for investment banking as it can cross borders, but retail banking is limited and will take time.
4	The future is bright, but the current providers need to take a long-term view and invest in education. Patience is required as the climate is not favourable at the moment.
Theme	Scholars agreed that the future is good, but certain tough challenges remain and called for the correction of some current strategies and proper investment in the future.

As the above two tables show, this question was put to both the UK-based Islamic bankers and scholars and the summary of the answers given by both groups of respondents are presented in the above two tables, with the detailed analysis of their answers presented below.

According to the responses of the interviewees, the future of Islamic finance in the UK is quite promising as the information in the above tables indicates.

There are a number of reasons why the UK is the ideal place for Islamic finance to grow and prosper. In the coming sections, I will discuss the factors that largely contribute to the reasonable development of Islamic finance in the UK and the forecasted bright future for the same in this country as explained by the respondents and noted by the researcher from other various sources.

9.6.3 The Unwavering Political Support of the British Government

All the respondents, regardless of the group they belong to, unanimously agree that the strong political support for Islamic finance is a great opportunity which should be exploited. Hence, I will briefly examine the role played by the UK Government, the Financial Services Authority (FSA) and the Bank of England as the primary political and regulatory decision-makers as far as the provision of financial services and products in the UK is concerned.

It is well documented, as our respondents confirmed, that the British Government is rightly showing a keen interest in the introduction of the *Shari'a*-compliant financial products; Islam is the second biggest faith in the UK and it therefore seems sensible to cater for the financial services needs of UK Muslims. There are many examples testifying to the above assertion, some of which will be discussed in the following sections under various headings.

9.6.4 Legislative and Regulatory Measures Introduced by the UK Government in Support of *Shari'a*-Compliant Finance.

Some pragmatic measures have been adopted by the British Government to facilitate the development and the steady progress of Islamic finance in the UK, as explained below.

1. Changes were made to the tax system by HM Revenue and Customs to remove some of the regulatory obstacles and enable Islamic finance competition in the financial services market which was a great relief for the industry. This sent a clear message across the board that the Government was determined to create a level-playing field for Islamic finance and the interviewed bankers confirmed that the introduced legislative

changes enabled them to offer various competitive *Shari'a*-compliant financial products such as Child Trust Funds, *Shari'a*-compliant mortgages and ISAs.

2. The establishment of the joint HM Treasury and HM Revenue and Customs Tax Technical Group with enormous expertise on technical issues relating to Islamic finance was another pioneering initiative that demonstrated that the Government is really committed to supporting this industry. The Group advises the Government on the practical, legal and tax implications of the various *Shari'a*-compliant financial products introduced by the providers of Islamic finance in the UK. As a result of the work carried out by this Group, the double stamp duty charge on *Shari'a*-compliant mortgages was abolished in the 2003 Finance Act, followed by the extension of the stamp duty land tax (SDLT) provisions in 2005 for financing arrangements based on equity sharing.

Other major adjustments introduced by the Government based on the advice given by the above mentioned Group include the introduction of *Murabaha*(cost-plus financing) and diminishing *Musharaka*(partnership) borrowing concepts in 2005 and 2006, allowing the purchaser to claim the profit or the rent element of the transaction for tax purposes in arriving at his/her taxable income.

3. The authorisation of the Islamic Bank of Britain as the first and the only stand-alone fully fledged *Shari'a*-compliant bank in Europe and the West. This was the outcome of the work carried out by a working group established by the Bank of England in 2000 to study the prospect of Islamic finance in the UK.

4. The stance adopted by the Financial Services Authority (FSA), the UK financial regulating authority. The FSA clearly states that its policy towards Islamic banks is “no obstacle, no special favours” and promoting “a level playing field between conventional

and Islamic finance providers” is their main objective in this regard (www.fsa.gov.uk, accessed December 2007).

It is worth noting that In the process of approving the applications forwarded by Islamic financial institutions, the Financial Services Authority (FSA) has consistently applied the same rules applied in the approval of conventional financial institutions which shows that it is actually practising what it preaches by ensuring that a level regulatory playing field is created and consistently applied

According to the HM Treasury Report (HM TREASURY: DEC: 2008), the Government’s objectives in this respect are clear as the following extract from the same report explains:

- To encourage the UK’s competitiveness in financial services by establishing the UK as a gateway for international Islamic finance and
- To ensure that everybody, irrespective of their religious beliefs, has access to competitively priced financial products (HM TREASURY: DEC,2008)

In order to achieve the above-mentioned objectives, the Government has adopted three key principles which are:

1. Fairness which means that the Government’s official policy towards this sector will be the creation of a level-playing field with neither favouritism nor discrimination
2. Collaboration which means that the Government will encourage the involvement of all stakeholders such as the providers of Islamic finance, community groups and the Authorities in order to achieve the desired objectives.
3. Commitment which means the Government is very committed to the concept of Islamic finance and will provide the necessary support when it is demanded

through the right channel. However, this fact has been clearly explained earlier as part of the discussion of the supportive measures adopted by the Government such as the removal of the tax and the regulatory obstacles.

In short, it is obvious from the above analysis that the Government is keen to support the development of Islamic finance in the UK as it believes the successful development of this industry is good for everybody as it would give more choice, improve financial inclusion, create more jobs, bring more taxes and enhance London's particular position as a world class financial centre.

9.6.5 Well-Established Long-Term Relations Between the UK and the Muslim World and London's Position as a World-Class Financial Centre

The strong historical trading relationships between the UK and the Muslim world, especially the Middle Eastern countries, and the excess liquidity in the Middle East resulting from the sharp rise in oil prices between 2003 and 2008 makes the UK a perfect candidate for meeting the investment and financial services of the affluent Muslims from the Middle East, due to the many attractive features of the UK in general and London in particular as I have already discussed.

According the Banker magazine, in its November, 2008 issue, the UK is reported to be the eighth highest country for the concentration of *Shari'a*-compliant assets and the first for Western countries. The UK already hosts five stand-alone banks exclusively offering *Shari'a*-compliant banking products and on top of this, there are about twenty conventional banks offering *Shari'a*-compliant financial products. A stand-alone *Shari'a*-

compliant insurance provider has also been recently licensed by the UK authorities and is currently offering Islamic insurance products.

Likewise, the fact that London is a leading world class financial centre with a proven track record of financial innovation, as well as an established skills base in legal, accounting and financial engineering, is another major factor contributing to the rapid development of Islamic finance in the UK. Also, English law is the favoured legal jurisdiction for most of the *Shari'a*-compliant financial contracts

9.7 CHALLENGES FOR ISLAMIC FINANCE IN THE UK.

As I have discussed earlier, the UK is well placed to benefit from the continuous and steady global growth of Islamic finance, yet there are some serious obstacles that should be addressed to ensure that the future of Islamic finance in the UK is not jeopardised. Some of these barriers are regulatory and legislative issues, but others are industry-specific, such as standardisation and awareness creation.

Apparently, the legislative and the regulatory issues require the involvement of UK authorities while the industry-specific issues should be tackled by the other stakeholders including the financial institutions offering *Shari'a*-compliant finance and Muslim community organisations. For instance, the diversity of the opinions of the *Shari'a* scholars on various products is a good example of the industry-specific issues that need to be addressed. Similarly, the scarcity of qualified *Shari'a* scholars means the segregation of *Shari'a* compliance monitoring and the independent auditing of the *Shari'a* approval process becomes difficult as the same people occasionally serve on all the boards.

One of the most pressing obstacles facing the Islamic finance industry in the UK is the extremely limited demand for their products, despite all the effort made by various stakeholders including the UK Authorities, the take-up of *Shari'a*-compliant finance is very poor and has hardly contributed to the financial inclusion of the Muslim community which is very disappointing for many including the UK Authorities. This contradicts the high expectation expressed by both Government officials and the general Muslim population.

This mismatch could be attributed to the inconvenience and the expectation gap factors that have been fully discussed in chapter Eight and were again reiterated earlier in this chapter.

Despite all the above-mentioned challenges facing Islamic finance in the UK, the future is very bright if the right policies are developed and implemented.

According to almost all the interviewees, there is great potential for Islamic finance in the UK. High demographic growth, improving educational levels which will lead to improved financial literacy, improving affluence levels which increase the demand for financial services and the general increased religious awareness among young British Muslims are some of the good signs that there is great potential for *Shari'a*-compliant finance in the UK

9.8 SUMMARY

The objective of this chapter was to analyze the semi-structured interview conducted on some of the representatives of the providers of *Shari'a*-compliant financial products in the UK and the UK-based Islamic banking and finance scholars. First, the responses of the

interviewees were individually recorded and later coded presenting the results of the coded answers in a table.

The interview was then organized into various topics to simplify the analysis of the responses given by the interviewees.

In the first section, I summarized the *Shari'a*-compliant financial products currently on offer in the UK market as per the information provided by the providers of such products, in order to obtain a good understanding of these products and their distinctive features. The research carried out by these institutions prior to introducing such products in the UK was also looked at in the second section to appreciate how realistic those estimates were and if the realities on the ground reflected the projections of the research conducted beforehand. The distinguishing characteristics of the consumers accessing *Shari'a*-compliant financial products in the UK were also visited in the third section of this chapter, followed by the extent to which Islamic financial products are improving the financial inclusiveness of the UK Muslim community in general and less affluent members of this community in particular

Finally, the challenges facing the institution providing *Shari'a*-compliant financial products in the UK and the prospects for such products were briefly presented

Chapter 10

CONCLUSION AND RECOMMENDATIONS

10.1 INTRODUCTION

This chapter will summarize the thesis, present the research findings and make recommendations. It will start with a brief description of the various phases of the thesis to provide the reader with an overall picture of how the research began and its logical flow thereafter. The main objectives of the research, as well as the selected methodologies, will be reviewed, followed by a brief discussion of the main research findings and recommendations.

Finally, the research limitations and suggested further research topics will be presented. The thesis consists of two major sections, namely background and empirical work. The first five chapters are the foundational chapters for the next five chapters, which form the empirical part of the thesis. In the coming sections, I will sum up each chapter chronologically starting it with the first one.

10.2 SUMMARY OF THE RESEARCH

The first chapter introduced the main research questions and their sub-questions and stated the research objectives as well as explaining the rationale of choosing the research topic. It also briefly discussed the research hypothesis, and the selected research methodology. An outline of the chapters to be included in the thesis was also presented.

The second chapter contained a survey of the literature dealing with the theory of financial exclusion and how it affects people in different parts of the world. The various causes of the problem as well as the type of people mostly affected by it were briefly studied, followed by the diverse policy responses adopted in both the developed and the developing world to tackle financial exclusion.

The third chapter looked at the extent of financial exclusion in the UK and how it affects people's lives. Faith- or religion-driven financial exclusion was briefly examined due to its relevance to this thesis. The limited literature on the subject may have had a detrimental effect on the presentation and discussion of the chapter, but it is encouraging that the matter gained recognition in the highest ranks of the British political establishment under Mr. Blair, to the extent that it was referred to as a "buzz word" for the Labour Government.

The socio-economic profiles of less affluent UK Muslims were also briefly considered to understand the extent of their plight as far as accessing financial products is concerned

The fourth chapter introduced the role of Islamic finance in combating financial and social exclusion, and the importance of social justice in Islam as one of the fundamental objectives of *Shari'a*. This chapter also explored the history of Islamic banking in the UK, examining the *Shari'a*-compliant financial products that the providers of such finance have offered, or are currently offering, in response to the financial services needs of UK Muslim communities in general and less affluent UK Muslim communities in particular.

The objective is to assess the suitability of the products on offer to the financial services needs of the less affluent UK Muslim communities who represent a significant number of the 1.8 million Muslims in UK, as I have noted in previous sections of this dissertation. All the *Shari'a*-compliant financial products currently on offer in the UK were carefully

studied and evaluated to find out if there is a gap between what is on offer and what is required by the less affluent UK Muslim communities, especially home-financing which is one the most critical needs for less well off UK Muslims as far as *Shari'a*-compliant financial services provision is concerned.

In Chapter Five, I looked at the policy initiatives proposed by the UK Government to tackle financial exclusion. Generally speaking, one of the best means of resolving the problem of financial exclusion is the introduction of community development financial institutions and the provision of microfinance to those excluded from mainstream financial services.

This chapter therefore examined the UK micro financing market and its stage of development. Particular attention was paid to the relevance of conventional microfinance to the financial services needs of less affluent UK Muslim communities, as any solution which is interest based would be inappropriate for this community. It was disappointing to discover that the only *Shari'a*-compliant microfinance initiative ever attempted and supported by the British Government in the UK has appealed to virtually no-one, despite being operational for more than a year. It was obvious from this chapter that an alternative strategy, with a different approach and features, was necessary if the financial exclusion of less affluent UK Muslims is to be practically addressed.

The second part of the thesis is concerned with the empirical work and the findings thereof. Chapter Six, which is the first chapter of this part, deals with the research design and methodology. In essence, it is about the primary data collection and administration process, covering the different phases of that process and dwelling on its important aspects, such as the sampling strategy and the relevance of the selected research methodologies to the research questions.

Chapter Seven is the beginning of the analysis of the survey questionnaire which makes up the bulk of the empirical work for this thesis. It started with the mapping of the research questionnaire to the research questions by relating the five parts of the survey questionnaire to the two main research questions and their five sub-questions, presented in a diagram in the beginning of the chapter.

The SPSS preliminary outcome was presented in frequency tables to explain the most distinctive features of the survey questionnaire respondents such as age, ethnicity and gender. Reference was made to the more advanced statistical tests that would later be performed on the sample respondents' responses to the survey questionnaire.

Chapter Eight is the main primary quantitative data analysis and the findings from employing both descriptive and inferential statistical tests, such as Mann-Whitney U-test, Kruskal-Wallis, factor analysis and Chi-square tests, as well as the more basic frequency and percentage tables. This chapter, to a certain extent, answered both of the main research questions and their sub-questions as the information presented in various sections of the chapter suggests. However, more detailed discussion of the findings of Chapters Eight and Nine will be handled in the section of this chapter under the research findings.

In Chapter Nine, I analyzed the responses given by the interviewees, namely bankers working for banks providing *Shari'a*-compliant finance in the UK and academics in the field of Islamic banking and finance.

The salient features of the *Shari'a*-compliant financial products currently on offer in the UK and their popularity among less affluent UK Muslims were discussed with the bankers who offer those products. Similarly, the prospects and the challenges facing these products according to the respondents were explored.

Finally, this chapter contained the conclusion and recommendations as already explained and also presented the research findings and the proposed policy implications as well as the research limitations and further research topics.

10.3 RESEARCH FINDINGS

The findings of the research were presented in Chapters Seven, Eight and Nine, where the two main research questions and all their sub-questions were satisfactorily answered. However, in this chapter, I will summarize the main research findings with the aim of recommending some policy initiatives. The main research findings, which were closely connected to the research questions and hypothesis, were as follows:

1. The conventional UK financial system does not meet the financial services needs of less affluent UK Muslims. This fact was made clear by the frequency tables in the previous chapter. Perhaps, it is worth remembering at this juncture that 83% of our sample respondents stated that they did not have any of the main conventional financial products, such as mortgages or personal or business loans. However, it is true that majority of respondents did have bank accounts, which concurs with the first hypothesis which states that although many less well off Muslims may have some basic financial products, the majority are either excluded or are on the margins of the UK conventional services.

2. The less affluent UK Muslim communities employ more informal financial services than formal financial services, due to their lack of trust in the formal financial system, poor financial literacy and the simplicity of the informal financial system

3. The level of awareness about existing *Shari'a*-compliant financial products was relatively low. Nearly 50% of respondents said they had not heard of the *Shari'a*-compliant financial products, which is a real cause for concern

4. The actual demand for *Shari'a*-compliant financial products currently on offer in the UK is very low as the data presented in Chapter Eight, where the survey questionnaire was analyzed, suggests. It was found that only 3% of those who had heard of the existence of *Shari'a*-compliant financial products available in the UK demanded these products. This is an interesting revelation which deserved further investigation. The findings of that further investigation will be presented below.

5. Scepticism about the authenticity of the available *Shari'a*-compliant financial products, the perceived materialistic approach and a huge expectation gap between what less affluent UK Muslims expect from the providers of Islamic financial products in the UK and what is actually on offer, are found to be some of the main reasons why less affluent UK Muslims are holding back from accessing them.

6. The introduction of Islamic finance has barely enhanced the financial inclusiveness of less affluent UK Muslims due the grave concerns they have expressed regarding the acceptability, accessibility and affordability of the existing *Shari'a*-compliant financial products as mentioned above. In short, the *Shari'a*-compliant financial products currently on offer do not meet the financial services needs of less well off UK Muslims and the lack of appropriate products is hindering their financial inclusiveness enormously.

7. There are microfinance institutions such as credit unions, community development finance institutions and other regeneration and social development enterprises in the UK. However, all of these institutions are interest-based and exist to respond to the financial

services needs of the ordinary financially and socially excluded UK consumers as opposed to the needs of the faith-conscious and socially excluded poor UK Muslims

8. Financial illiteracy is one of the main causes of the low demand for Islamic financial products, as accessing *Shari'a*-compliant financial products requires some basic understanding of finance in general and an appreciation of the distinguishing features of *Shari'a*-compliant financial products as well as the underlying doctrine of Islamic economics.

9. There is no demand for *Shari'a*-compliant finance at the moment in the UK due to the various factors discussed in Chapter Eight and repeated above. The service is supply-driven with no corresponding demand. Unless demand is created by adopting the above-mentioned recommendations, the future of Islamic banking in the UK in general and *Shari'a*-compliant retail banking in particular is very gloomy in indeed.

10.4 RECOMMENDATIONS AND POLICY IMPLICATIONS

Having briefly presented the main research findings, I am now in a position to make some recommendations, exploring the policy implications where practicable. However, it is worth noting here that the dilemma facing the less affluent UK Muslim community, as far as access to financial products is concerned, is manifold and multifaceted and requires a comprehensive and coordinated approach as opposed to piecemeal solutions. In other words, any effort aimed at dealing with the financial exclusion problem facing less affluent UK Muslims should involve all parties concerned, including the providers of *Shari'a*-compliant finance in the UK, all the governmental agencies mandated to tackle financial exclusion, community development financial institutions, regeneration and social development enterprises and voluntary community organizations serving the various

Muslim community ethnic groups. I am of the opinion that close coordination of the above-mentioned parties is essential if the severe financial exclusion holding back less affluent UK Muslims is to be seriously tackled. However, the role that each party should play in this task will be explained in the coming sections.

10.5 RECOMMENDATIONS FOR THE PROVIDERS OF *SHARI'A*-COMPLIANT FINANCE IN THE UK.

The institutions providing Islamic financial products should adjust their strategic and operational plans to reflect the reality on the ground. According to most of the providers of *Shari'*- compliant finance in the UK, the projections made before the products were launched are very different from the actual results which is a bitter reality. In my opinion these institutions need to take some drastic remedial action to rectify the situation, in collaboration with other stakeholders such as government agencies interested in combating financial exclusion, community development financial institutions and community organizations. However, as they would commercially benefit most, the providers of Islamic finance should take a long-term view by heavily investing in education, product development and comprehensive marketing campaigns coupled with the right products and cohesive policies, to create the necessary demand for their products.

I will offer below some specific recommendations that I believe are crucial in achieving the above-mentioned objectives, although the list is not exhaustive.

10.5.1 Need for Comprehensive and Aggressive Educational Campaign Delivered Through the Right Channels

As I have mentioned earlier in this chapter and elsewhere, the level of awareness of less affluent UK Muslims about the existing *Shari'a*-compliant financial products is very poor. I further noted that there is a huge negative perception surrounding the whole concept of Islamic banking in the UK, which needs to be tackled in a thoughtful manner to rectify the situation and disprove the widespread negative image of these products. For instance, UK Muslims in general and less well off ones in particular believe that the *Shari'a*-compliant financial products on offer are no different from conventional finance and thus question their authenticity. It was very obvious during our interaction with these groups that the information spread about the whole provision was quite negative, and although they did not have any substantive evidence to support their strongly-held unfavourable views, they were enough to put off any potential buyer who is not well informed, especially in communities where word-of-mouth information takes precedence over any other media, as is the case in most less affluent UK Muslim communities. This clearly shows the amount of distorted information and ignorance about the *Shari'a*-compliant financial products out there which swiftly spreads through such communities.

Correcting this vast amount of distorted information requires real commitment from the institutions providing *Shari'a*-compliant finance in the UK by investing in real educational programmes which are carefully designed and delivered through the right channels. Devoting resources to the wrong audience or badly disseminated information would not bring fruitful results, but would make things worse.

Consulting local community organizations is extremely important as the cultural element is the deciding factor in penetrating this market to convey the right message. For instance, for the Somalis, their biggest source of information is educational talks

conducted by relatively popular clerics, which are usually videotaped to be watched by as many people as possible. Therefore, reaching them would require some sort of strategy built around these. Each community needs to be studied individually and the right strategy for reaching them developed and carefully executed.

10.5.2 Using the Leverage of Local Imams by Educating Them on Islamic Finance to Educate Their Local Community

One of the best means that could be employed to educate UK Muslims in general and the less affluent members of this community in particular, would be to devise a comprehensive Islamic finance course for local religious leaders who have a tremendous amount of influence over their local communities. These would include local Imams and teachers in *madrassas* (religious schools). This would entail running intensive short courses for local religious leaders, taught in their mother tongue, to equip them to disseminate that information to their local communities. The power and influence these individuals command in their local communities is substantial and using them for this purpose would be very beneficial. It is worth mentioning that a lot of the negative information spread throughout these communities came from these local religious leaders whose knowledge of Islamic finance is very limited or at times nonexistent. Educating them and removing their doubts would be a major achievement for the providers of Islamic finance, as mobilizing this untapped influence and power would convince a lot of people who are not currently accessing these products because of false rumours that have created a deep rooted negative perception.

10.5.3 Refining the Current Marketing and Publicity Strategies

One of the biggest challenges facing the providers of *Shari'a*-compliant financial products in the UK is the huge marketing expenditure that has been incurred by providers to convince the UK Muslim population to purchase their financial products and the negligible effect it has had so far on people's actual demand for such products. It seems that the problem lies in the development of the products as well as their distribution and dissemination. Some of the scholars of Islamic finance whom I interviewed were of the opinion that the providers of the *Shari'a*-compliant financial products were to blame for the lack of real demand for their products, as their provision and their marketing literature is externally oriented. Their objective is to cater for the financial services needs of their wealthy Middle Eastern customers whose financial services are quite different from those of less affluent UK Muslims. These scholars suggested that a different approach is necessary if the *Shari'a*-compliant financial services needs of less affluent UK Muslims are to be met, starting with the modification of their current marketing strategies. Again consulting the local community and religious leaders about the best marketing strategy is paramount as the cultural element is a determining factor in gaining the minds and hearts of that particular community.

10.5.4 Development of products suitable for the local UK market.

According to the findings of this research, less affluent UK Muslims are very keen to use *Shari'a*-compliant financial products provided they are genuine, competitive and relevant to their financial services needs. However, I also noticed that despite the high preference for such products, the reality on the ground was different as the respondents felt the current products were neither genuine nor suitable to their financial services needs.

Modification of the current financial products to make them more suitable to the local Muslim market would increase demand and hence the financial inclusion of less affluent UK Muslims would be greatly enhanced.

As I have discussed earlier, one of the biggest obstacles facing the UK- based financial institutions offering *Shari'a*- compliant financial products is the wide discrepancy between their initial projections and the actual results. It was apparent from the responses I received from both the survey questionnaire respondents and the semi-structured interview of the UK-based Islamic-finance scholars that the majority of the respondents were of the opinion that the *Shari'a* compliant financial products currently on offer did not appeal to them for many reasons including perceived incompatibility to their needs and strong scepticism about their authenticity as well as inappropriate marketing strategies.

In my opinion, creating a research unit dedicated to *Shari'a*- compliant product development and market research within each financial institution would greatly improve results as it would lead to better understanding of the financial services needs of their target customers to develop more relevant financial products as the financial services needs of the less affluent are obviously different from those of the affluent. No doubt that creating these units would in the short term at least increase the losses that these institutions are currently making as the demand for their products is very low at the moment. However, as I have pointed out several times in the thesis, the providers of *Shari'a*- compliant finance in the UK need to take a long term view of the industry and invest accordingly and I strongly believe that investing in research and product development is a brilliant idea and could bring handsome results in the near future.

As a cost mitigation strategy, the institutions providing *Shari'a*-compliant finance in the UK could join forces to set up one unit that specialises in research on Islamic finance and

share the cost of this unit .However, the fact these are fierce competitors may negate this possibility despite the obvious benefits it would bring to all. Alternatively, they could approach certain Universities with notable expertise in Islamic finance and reach a mutually beneficial agreement with them where the latter could release some of their academic staff to conduct research on market research and product development for these banks and the former would shoulder most or all of the cost of the staff carrying out this research.

Another way that this would be improved would be by the introduction of a *Shari'a*-compliant micro-financing unit within each financial institution offering *Shari'a*-compliant finance in the UK.

I understand that one of the biggest challenges in this respect would be the initial capital injection for a new micro-finance unit or subsidiary. However, Islamic financial institutions could raise this capital through *zakat* (almsgiving) and *tabarruat* (donations) as well as through social entrepreneurs. The Islamic Development Bank could also be approached to participate by contributing some of the required capital from its *awqaf*(charitable endowment) funds as it would the set criteria.

The newly established micro-financing unit or subsidiary would work on the principle of some of the *Shari'a*-compliant financing modes, such as diminishing *musharaka*(partnership) in business financing and *mudaraba*(trust financing) in investment management. For example it could manage the children's fund of Muslim children on a *mudaraba*(trust financing) basis by acting as the *mudarib*(trust financing entrepreneur).

10.5.5 Increased Involvement with the Muslim Communities.

As the previous discussion suggested, the providers of *Shari'a*-compliant finance in the UK are somehow detached from the Muslim community in general and the less affluent in particular and this worsens the suspicion and deepens the mistrust. In my opinion, these institutions can do better by engaging more with the local communities such as giving weekly or monthly lectures about their products emphasising the distinctive features of their products at the local Mosques, for instance. Also, sponsoring certain community development initiatives such as after school clubs for the poor performing children of the local Muslim community and sponsoring other charitable activities such as the funding for some Islamic recreational centers for the local Muslim communities would win them the sympathy of the local community and might have diffused some of the concerns people had about these organisations. Similar philanthropic actions could be undertaken by these institutions such as running free financial advice sessions on every Friday for instance after the *Juma'a*(Friday) prayers when there is a huge congregation to get the message across. Sponsoring financial inclusion projects in certain deprived Muslim populated areas would also enhance their standing in the community and would perhaps help them get access to the hearts and the minds of UK Muslim masses. The above mentioned steps and other similar actions would connect them to the wider Muslim community which would substantially increase the level of trust among the Muslim population and enable them do more business with this community for the mutual benefit of both parties.

10.6 RECOMMENDATION FOR ALL UK GOVERNMENT DEPARTMENTS INVOLVED IN TACKLING FINANCIAL AND SOCIAL EXCLUSION.

Instead of claiming the credit for introducing Islamic finance in the UK and assuming that this will suffice to take care of the financial exclusion that is hindering the progress of the less affluent UK Muslim community, the UK Government needs to face the reality and deal with the problem of financial exclusion head on to save thousands of people from being totally cut off from the rest of society. Special attention should give to the following areas.

10.6.1 Recognition of the Uniqueness of the Financial Exclusion Problem of Less Affluent UK Muslim Communities

The fact that the majority of less affluent UK Muslims observe *Shari'a* compliance in all aspects of their lives, including the consumption of financial services, means that they will remain financially excluded unless authentic, suitable and competitive financial products are offered to them.

I have noted in previous chapters, and earlier reiterated in this one, that the current provision does not appeal to many people of this community at all and thus the effect that the current *Shari'a*-compliant financial products have had on enhancing their financial inclusion has been minimal. This suggests that a wholistic and coordinated effort is warranted if this chronic problem is to be dealt with.

The starting point is to officially recognize that less affluent UK Muslims are one of the most vulnerable and disadvantaged communities in the UK. This would require rigorous amendments to the current funding criteria for the financial inclusion initiatives in the UK to incorporate the multifaceted barriers facing the less affluent UK Muslim communities

who have a lot in common with other disadvantaged communities as far as financial exclusion is concerned, but, in addition, have to observe *Shari'a* compliance when accessing financial services. This compounds their suffering and puts them at the very bottom of the financial services ladder.

One of the best ways of helping this community out of the vicious cycle of financial exclusion and social deprivation would be to have teams specializing in the financial services needs of this community. These teams would work closely with the institutions offering *Shari'a*-compliant financial products in the UK to develop genuine financial products to cater for the financial services needs of financially excluded UK Muslims.

10.6.2 Tailor-Made Financial Advice and Guidance

As I stated earlier, the less affluent UK Muslim community's predicament as far as financial exclusion is concerned is twofold. Firstly, like all other disadvantaged groups, they suffer from acute financial disadvantage caused by the unfortunate situations in which they find themselves. This is usually manifested by low income as a result of unemployment or underemployment caused by many factors including lack of relevant skills, language barrier and discrimination. There is no doubt that less affluent UK Muslims are not alone in this respect, but are similar to most of the UK ethnic minority communities with varying levels of financial exclusion. Therefore, the suggested solutions should take into account the fact that tackling financial exclusion among less affluent UK Muslims is not unique to them, but is common to all disadvantaged groups in the UK. However, one should also recognize that responding to financial exclusion among less affluent UK Muslims goes beyond the measures suggested for non-Muslims as their plight is exacerbated by the fact that they should observe *Shari'a* compliance

when accessing financial products. The following are ways in which UK Muslims can benefit from the services provided to all financially excluded groups in the UK:

1. Independent financial advice, locally delivered and in their own mother tongue
2. Regular financial literacy training in key areas such as personal budgeting, saving and accessing low cost *Shari'a*-compliant finance
3. Training in accessing government support schemes and taking full advantage of their financial entitlements

10.6.3 Enhancing the Existing Informal Financial Services.

As I have noted in previous sections, less affluent UK Muslims employ informal financial services extensively, with more than 75% of them using *hawala* (money remittance) for instance, which is one of the most popular informal financial services accessed by less affluent UK Muslim communities. Similarly 62% of our sample respondents confirmed that they have some sort of an informal saving scheme through family and friends. I have already discussed, in Chapter Eight, the main reasons behind this high preference for informal financial services over formal finance and I strongly believe that enhancing these services through professional training, capacity building and financial support would lead to their swift expansion and ultimate formalization.

One possible way of enhancing these schemes is to transform the informal family-and-friends saving schemes to formal credit unions with the injection of some public funding, at least for the first few years. This would enable a lot of people who are currently excluded from the financial services sector to access the mainstream financial services

sector through formal credit unions. It could also be a training ground for these communities and it would bring an entire shadow economy into the mainstream financial services sector and thus create a more financially inclusive society.

Similarly, the *hawala*(money transfer) companies could be formalized by granting them non-profit status, since their services could be legally registered as charities as they usually engage in providing certain humanitarian services by facilitating the flow of funds to millions of people who live in countries where there are no operational financial services, such as Somalia. Again, this would strengthen the informal *hawala*(money transfer) companies and encourage them to operate with more transparency, confidence and efficiency. As a result of this formalization, these organizations would be able to access extra public funding like all other charitable institutions.

The end result would be larger, more transparent and efficient *hawala*(money transfer) concerns that could cater for the financial services needs of their local communities to reduce or even eradicate financial exclusion among less affluent UK Muslim communities. These newly-created financial institutions would then provide suitable *Shari'a*-compliant financial products, such as business financing and home purchase schemes that could meet the needs of their respective local communities. The main attraction here is the comfort, ease of access and the local touch, which are the main sources of the huge popularity of informal financial services among less affluent UK Muslim communities.

The objective is to retain these crucial characteristics and enable them to expand and diversify in serving the financial services needs of their local communities.

No doubt this would require an injection of some public funding as well as a fundamental change in the way *hawala*(money transfer) companies are run in the UK. Of course,

convincing the current heads of these institutions would require a lot of resources as well as unwavering public support. The starting point would be to commission a thorough study of the operations of *hawala*(money transfer), with the aim of transforming them into international non-profit financial services.

Alternatively, a new *hawala*(money transfer) company could be created with the above objective by raising the initial capital from various sources such as philanthropists, Islamic financial institutions, public funds and social entrepreneurs.

10.6.4 Establishing Specialist Units within Mainstream Government Departments to Combat Financial Exclusion

No doubt many of the financial exclusion problems facing less affluent UK Muslim communities can be traced back to their extreme economic and social disadvantage. Less well off UK Muslims are some of the most disadvantaged ethnic minority groups in the UK and addressing this problem would demand a serious recognition of the underlying reasons for the acute disadvantage that has engulfed them.

Since the UK Muslim community suffers, from acute financial exclusion, as the findings of this research have shown, it would be sensible to address this problem at the highest policy making level by creating units that specifically cater for the needs of less affluent UK Muslims. Having such units within the mainstream grant-making and business support agencies, such as Business Link, London Development Agency and the like, would ensure that the less affluent UK Muslim community could access these services. They are hardly doing so at the moment as they feel that such institutions do not understand their needs and thus cannot meet them. The task of the created units would be to study all the available facilities and ensure that they were refined in such a way as

to meet the needs of less affluent UK Muslims in terms of the product features as well as the method of delivery. Creating *Shari'a*-compliant social housing schemes within the social housing sector would also greatly increase home ownership among less affluent UK Muslim communities

10.7 RECOMMENDATIONS FOR COMMUNITY DEVELOPMENT INSTITUTIONS

In our opinion, creating a *Shari'a*-compliant credit union that would cater for the financial services needs of less well off UK Muslims would greatly enhance the financial inclusion of the less affluent UK Muslim community.

The main objective of credit unions is to improve the economic and social standing of their members and local communities by providing their members with low cost credit and saving schemes with reasonable returns.

One of the basic requirements when starting up a credit union is the existence of a common bond between the members of the union, which for UK Muslims, is their faith. However, forming a credit union that meets the needs of all UK Muslim community members may prove difficult as this community is not homogenous, due to the different cultural, linguistic and ethnic backgrounds.

Setting up community-specific credit unions would perhaps be better under such circumstances where a *Shari'a*-compliant credit union could be established for each community. For instance, one could be established for Somalis, another for Bangladeshis and another for Pakistanis. In this way the bond would be even stronger as these communities have other things in common, such as language and culture. Creating such an institution would not be cheap and no doubt certain difficulties would be

anticipated by anyone prepared to undertake this task. Some of the biggest challenges of creating such credit unions could be summarized as follows:

1. Convincing the members of less affluent UK Muslim communities to come together and agree on the common purpose of creating such an institution for the benefit of the wider community. Bringing together the UK Muslim community on financial matters would indeed be a daunting task as in most cases they do not agree even on the running of some of the most basic voluntary community tasks, such the management of mosques which are basically houses of worship.
2. Finding skilled members from this community who are willing to work on a voluntary basis, as the skills needed to run a financial institution are not abundant within the UK Muslim community and finding those skills free of charge would, in my opinion, be a nightmare.
3. The level of financial literacy necessary to accept and be part of a financial institution such as a credit union is in short supply among less affluent UK Muslim communities.
4. Finding the necessary critical mass to set up a credit union could prove extremely difficult if each community tries to set one up specific to that particular community. Establishing one for all would not be feasible due to the above mentioned significant cultural differences within the less affluent UK Muslim community.

10.8 RECOMMENDATIONS FOR THE UK MUSLIM COMMUNITIES

The UK Muslim community organizations and members should realize that they cannot rely on outside agents to solve their problems. They should understand that they have to bear the consequences of their actions or inactions.

Some critics argue that the UK Muslim community is the architect of their own misfortune as they chose the path of disintegration and self-exclusion by creating their own ghettos. Similarly, it is reported that UK Muslim community organizations are extremely ineffective and waste resources instead of supporting their local communities to enhance their well-being. These community organizations need to show the necessary leadership by actively working with concerned parties to improve the financial inclusion of their respective communities.

One of ways of tackling financial exclusion among the less affluent UK Muslims is the creation of Muslim community development financial institutions as I have explained earlier in the chapter. It was apparent from our previous discussion that private Islamic commercial financial institutions have little motivation in responding to the financial services needs of the less affluent as their primary objective is to maximise profit for their shareholders and the poor are obviously not a lucrative business target for these institutions. Hence, non-profit Islamic financial institutions such as *Waqf* (charitable endowment) and *Zakat* (almsgiving) based financial institutions can fill this void. However, such institutions are in scarce in the Muslim World and non-existent in the Western World. The *Waqf* (charitable endowment) fund of the Islamic Development Bank (IDB) is the only operational fund of this nature to my knowledge and has to serve the financial services needs of all the poor people of the Organisation of Islamic Conference (OIC) consisting of 57 countries with more than 1.2 billion people where the majority is

estimated to be financially excluded as I have previously mentioned in the thesis. Creating an independent *Waqf* (charitable endowment) based financial institution with the objective of serving the less well off Muslims in the UK would in my opinion bridge the gap that exists between the financial services needs of the less well off UK Muslims and the available provision.

10.9 RESEARCH LIMITATION AND FURTHER RESEARCH

Like any other academic research, this one faced certain restrictions due to the limited resources that were available to the researcher at the time of the study.

Limitation of the time available to the researcher was no doubt a restricting factor as he was unable to increase the sample size as to do so would call for more resources that were not at his disposal. The literature on Islamic Banking in the UK was extremely limited and thus the references were seriously affected. Similarly, data on UK Muslims in general and less affluent ones in particular was in short supply and this had a detrimental effect on the discussion presented in the relevant sections of the thesis. The literature on micro-financing institutions operating in the UK was also very limited and at times nonexistent.

All of these limitations had a significant effect on the research. However, the researcher is of the opinion that this research has uncovered some interesting findings which are very relevant to all the parties trying to improve the financial inclusion of the less affluent UK Muslim community.

10.9.1 Further Research Topics

Some of the areas where further research could be conducted include looking at:

1. Financial inclusion policy initiatives to see if they treat faith-related financial exclusion seriously and the measures adopted to combat it.
2. The relationship between the financial inclusion of disadvantaged communities in the UK and business success
3. The entrepreneurial skills of less affluent UK Muslims and how financial exclusion is restricting their talents
4. The cost and long term consequence of financial exclusion among less affluent UK Muslims and the cost of preventing it (cost benefit analysis)
5. The cultural and psychological influences of 'financial self- exclusion'.

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Appendix A

Introduction:

According to various surveys and other sources, there are about 1.5 million Muslims in the UK, but the introduction of Sharia compliant financial products is relatively new phenomena and these products are now reasonably available to the UK Muslims. However, it is the subject matter of this to find out:

- How significant is the number of Muslims who were previously financially excluded and are now accessing and benefiting from the UK financial services market
- How many Muslims are transferring their financial services(such as mortgages) to institutions providing Islamic financial products
- How do the UK Muslims perceive the various Sharia compliant products currently on offer and how does this perception significantly influence their banking and home financing behavior
- Is there a significant gap between what the UK Muslims would like to get from the institutions providing Islamic financial services and what is available from these concerns

Please answer the following question as accurately as you can by following the instructions in each part. The honesty of your response will determine the reliability of the research outcome. Rest assured that your individual response will be highly confidential and will not be made available in the public domain.

Questionnaire

PART A: Instructions: Please tick the appropriate box

Personal profile

1. Gender

- ☐ Male
- ☐ Female

2. Age group

- ☐ 16-24
- ☐ 25-34
- ☐ 35-49
- ☐ 50-64
- ☐ 65+

3. Ethnicity

- ☐ Somali
- ☐ Bangladeshi
- ☐ Pakistani
- ☐ Arab
- ☐ Other, please specify-----

4. Length of stay in the UK

- ☐ Less than 5 yrs
- ☐ Between 5-20 yrs
- ☐ More than 20 years

5. Marital status

- ☐ Single
- ☐ Married with children
- ☐ Divorced with children
- ☐ Separated
- ☐ Widowed
- ☐ Other, Please explain-----

6. Employment status

- ☐ Self-employed
- ☐ Employed
- ☐ Unemployed
- ☐ Retired
- ☐ Other, Please specify-----

7. Educational qualifications

- ☐ None
- ☐ GCSE
- ☐ A-level
- ☐ Diploma
- ☐ Degree
- ☐ Other Please give details-----

8. Household Annual Income

- ☐ Below £5,000
- ☐ £5000-9,999
- ☐ £10,000-14,999
- ☐ £15,000-19,999
- ☐ £20,000 and over

PART B: Instructions: Please tick the appropriate box

Your access to UK conventional financial services

9. Do you or anybody in your household have any of the following types of accounts?

- ☐ Post office
- ☐ Current account
- ☐ Savings accounts
- ☐ Time deposits
- ☐ Investment accounts such as bond investments
- ☐ ISAs
- ☐ Others, please specify-----
- ☐ None

10. Do you have any of the following financial products with a conventional bank?

- ☐ Mortgages
- ☐ Personal loan
- ☐ Business loan
- ☐ Interest earning savings account
- ☐ Other, please specify -----
- ☐ None

11. If you do not have any of the above products, what is main the reason?

- ☐ You do not want deal with interest
- ☐ You do not need to borrow
- ☐ You are too poor to get these facilities
- ☐ You do not know how to go about it
- ☐ You tried, but did not succeed
- ☐ Other reason-Please specify-----

12. Some of the important financial services that you need on day to-day basis, but you cannot find in your bank and access from elsewhere includes:

- ☐ Savings scheme (through family/friends credit unions)
- ☐ Money transfers (Through Hawala companies)
- ☐ Short-term interest free loan (Through family and friends credit unions)
- ☐ Business financing schemes (through Family/friends credit unions)
- ☐ Other, Please specify-----

PART C: Instructions: Please tick the appropriate box

Your knowledge of the existing Sharia complaint financial products and how they influence your access to financial services in the UK

13. Have you heard about the existing Sharia complaints financial products in the UK?

- ☐ No
- ☐ Yes Please explain what you know about them-----

14. Do you have a bank account with any of the institutions offering Sharia compliant financial products in the UK?

- ☐ Yes
- ☐ No(See question 15)

15. If you said No to the above question, the main reason you do not have an account with any of the institutions providing Sharia complaint financial products is because:

- ☐ You are not interested in their accounts as you believe they are not that different from conventional banks
- ☐ You think they do not provide good service
- ☐ You have tried, but you were not successful
- ☐ Other, please specify-----

16. Do you live in:

- ☐ Rented property
- ☐ Owned property
- ☐ Council house/flat
- ☐ Other, Please specify-----

17. Did you take out a conventional mortgage to purchase your property?

- ☐ Yes(See Question 18)
- ☐ No

18. If you had a mortgage, before the introduction of Sharia complaint mortgages. Did you switch your conventional mortgage to a Sharia compliant one?

- ☐ Yes
- ☐ No, Please explain why?-----

PART D: Instructions: Please tick the appropriate box

Your expectation from the introduction of Islamic finance in the UK(For Muslim SMEs)

19. Are you in business?

- ☐ No
- ☐ Yes, Please explain the type of business and the method of financing it-----

20. Did you take out a loan from any bank or any other institution when you were starting up the business?

q No

q Yes, Please explain the nature of the loan and from which institution-----

21. Did you approach any of the institutions offering Sharia complaint financial products for raising finance for your business?

q Yes, Please explain what the outcome was-----

q No(See question 22)

22. If No to the above question, the main reason of not approaching these institutions is:

q You did not need their help

q You did not know about them

q You think they are more expensive than their conventional counterparts

q You have advised not to approach they as they are not for small man

q Other, please specify-----

23. In your opinion, how would the availability of suitable sharia complaint business finance impact on your business strategy? -----

PART D:

Your attitudes towards the Sharia complaint financial products on offer in the UK

24. Islamic mortgages are more expensive than conventional counterparts.

1	2	3	4	5
Strongly	Disagree	Neutral	Agree	Strongly agree
Disagree				

25. The availability of Sharia complaint products will enhance the UK Muslims access to financial services such as home financing.

1	2	3	4	5
Strongly	Disagree	Neutral	Agree	Strongly agree
Disagree				

26. There are many Muslims in the UK who are not accessing financial products such as basic banking and home financing due to their faith and would do so if they had an Islamically acceptable alternative

1	2	3	4	5
Strongly	Disagree	Neutral	Agree	Strongly agree
Disagree				

27. The Sharia compliant financial products on offer in the UK, such home-financing products, are not different from the conventional ones, but it is a matter of inserting Arabic terms to suggest Shari'a compliance

1	2	3	4	5
Strongly	Disagree	Neutral	Agree	Strongly agree
Disagree				

28. A large number of UK Muslims should switch their banking and home-financing services to Sharia complaint products even if they have to pay more

1	2	3	4	5
Strongly	Disagree	Neutral	Agree	Strongly agree
Disagree				

29. The majority of UK Muslims do not think that the institutions providing Sharia complaint products in the UK are more profiteering and aggressive than their conventional counterparts.

1	2	3	4	5
Strongly	Disagree	Neutral	Agree	Strongly agree
Disagree				

30. The Sharia complaint products on offer are very selective and cater only for the rich who are just a minority in the UK Muslim population.

1	2	3	4	5
Strongly	Disagree	Neutral	Agree	Strongly agree
Disagree				

Interview questions for the Islamic bankers and scholars

1.What Sharia compliant products do you offer in the UK?-----

2.How long have you been providing these financial products in the UK?-----

3. Did you carry out a market research prior to introducing these products in the UK?

- ☐ Yes(See question 4)
- ☐ No

4.What is your assessment of the number of people who are using your products since you have made available in the UK compared to your projections?-----

5. Do you keep records about your customer's banking history and access to conventional financial services such as bank accounts and mortgages?

- ☐ Yes(See Question 6)
- ☐ No

6.What percentage of your current customers have not been accessing conventional banking services due to their faith ?-----

7. According to the literature on the subject of making available Sharia complaint products in the UK, there was a reasonable expectation from the concerned authorities and commentators that the introduction of Islamic financial products in the UK would greatly enhance the financial inclusion of the UK Muslim community, do you think this was a reasonable expectation?

- ☐ Yes(See question 8)
- ☐ No

8. Could you briefly explain the steps, if any your organization has taken to tackle financial exclusion and what has been achieved so far?-----

9. Do you keep records to enable you trace the number of people who are switching their financial services such as mortgages and bank accounts to your Sharia complaint products?

- ☐ Yes(See question 10)
- ☐ No

10. According to your records, how many UK Muslims have switched their mortgage and bank accounts to yourselves after learning about your Sharia complaint products?-----

11. Some people argue that the reason why the Sharia complaints on offer in the UK are not very popular with many of the UK Muslim community is because they believe that these products are not technically different from their conventional counterparts and more expensive, what is your response to this argument?-----

Questions for the Islamic Finance and Banking scholars

12. In your opinion, how popular are the Sharia compliant products with their target customers(UK Muslim community)?-----

13. In your opinion, what role should Islamic financial products play in tackling financial exclusion in the UK and is it doing that?-----

14. A large number of UK Muslim community are skeptical about the existing Sharia complaint products on the basis that they are not substantially different from their conventional counterparts, how justified is this skepticism in your opinion?-----

15.What do think is the future of Islamic banking in the UK and what are the challenges it should overcome to succeed ?-----
